

PRUDENTIAL PLC  
Form 6-K  
March 13, 2012

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

For the month of March, 2012

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,  
LONDON, EC4R 0HH, 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 by furnishing the information  
contained in this Form is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐      No ☒ X

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

Enclosures: Prudential plc 2011 Full Year results - IFRS

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## STATUTORY BASIS RESULTS

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONSOLIDATED INCOME STATEMENT

	2011	2010
Year ended 31 December	£m	£m
Gross premiums earned	25,706	24,568
Outward reinsurance premiums	(429)	(357)
Earned premiums, net of reinsurance note C	25,277	24,211
Investment return	9,360	21,769
Other income	1,869	1,666
Total revenue, net of reinsurance	36,506	47,646
Benefits and claims	(31,060)	(40,608)
Outward reinsurers' share of benefit and claims	746	335
Movement in unallocated surplus of with-profits funds	1,025	(245)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(29,289)	(40,518)
Acquisition costs and other expenditure note H	(5,005)	(4,799)
Finance costs: interest on core structural borrowings of shareholder-financed operations	(286)	(257)
Total charges, net of reinsurance	(34,580)	(45,574)
Profit before tax (being tax attributable to shareholders' and policyholders' returns)*	1,926	2,072
Tax credit (charge) attributable to policyholders' returns	17	(611)
Profit before tax attributable to shareholders note C	1,943	1,461
Tax charge note J	(432)	(636)
Less: tax attributable to policyholders' returns	(17)	611
Tax charge attributable to shareholders' returns** note J	(449)	(25)
Profit for the year	1,494	1,436
Attributable to:		
Equity holders of the Company	1,490	1,431
Non-controlling interests	4	5
Profit for the year	1,494	1,436
Earnings per share (in pence)	2011	2010
Based on profit attributable to the equity holders of the Company: note K		
Basic	58.8 p	56.7 p
Diluted	58.7 p	56.6 p
Dividends per share (in pence)	2011	2010
Dividends relating to reporting year:note L		

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	Interim dividend	7.95 p	6.61 p
	Final dividend	17.24p	17.24 p
Total		25.19p	23.85 p
Dividends declared and paid in reporting year:note L			
	Current year interim dividend	7.95 p	6.61 p
	Final / second interim dividend for prior year	17.24 p	13.56 p
Total		25.19 p	20.17 p

\* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. The 2010 profit before tax is stated after £377 million of pre-tax costs of the terminated AIA transaction. See note I.

\*\* The 2010 tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011 £m	2010 £m
Profit for the year	1,494	1,436
Other comprehensive income:		
Exchange movements on foreign operations and net investment hedges:		
Exchange movements arising during the year	(32)	217
Related tax	(68)	34
	(100)	251
Available-for-sale securities:		
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:		
Unrealised holding gains arising during the year	912	1,170
Deduct net (gains) / add back net losses included in the income statement on disposal and impairment	(101)	51
Total note T	811	1,221
Related change in amortisation of deferred income and acquisition costs	(331)	(496)
Related tax	(168)	(247)
	312	478
Other comprehensive income for the year, net of related tax	212	729
Total comprehensive income for the year	1,706	2,165
Attributable to:		
Equity holders of the Company	1,702	2,160
Non-controlling interests	4	5
Total comprehensive income for the year	1,706	2,165

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2011							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
Year ended 31 December 2011	£m	£m	£m	£m	£m	£m	£m	£m
Reserves								
Profit for the year	-	-	1,490	-	-	1,490	4	1,494
Other comprehensive income								
Exchange movements on operations and net investment hedges, net of related tax	-	-	-	(100)	-	(100)	-	(100)
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	-	-	-	-	312	312	-	312
Total other comprehensive income	-	-	-	(100)	312	212	-	212
Total comprehensive income for the year	-	-	1,490	(100)	312	1,702	4	1,706
Dividends	-	-	(642)	-	-	(642)	-	(642)
Reserve movements in respect of share-based payments	-	-	44	-	-	44	-	44
Change in non-controlling interests arising principally from	-	-	-	-	-	-	(5)	(5)

purchase and  
sale of property  
partnerships of  
the PAC  
with-profits  
fund and other  
consolidated  
investment  
funds

Share capital  
and share  
premium  
New share  
capital  
subscribed

-	17	-	-	-	17	-	17
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Treasury shares  
Movement in  
own shares in  
respect of  
share-based  
payment plans  
Movement in  
Prudential plc  
shares  
purchased by  
unit trusts  
consolidated  
under IFRS  
Net increase /  
(decrease) in  
equity

-	-	(30)	-	-	(30)	-	(30)
-	-	(5)	-	-	(5)	-	(5)
-	17	857	(100)	312	1,086	(1)	1,085

At beginning of

year	127	1,856	4,982	454	612	8,031	44	8,075
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At end of year	127	1,873	5,839	354	924	9,117	43	9,160
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## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				2010				
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available -for-sale securities reserve £m	Shareholders' equity £m	Non- controlling interests £m	Total equity £m

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Reserves								
Profit for the year	-	-	1,431	-	-	1,431	5	1,436
Other comprehensive income								
Exchange movements on foreign operations and net investment hedges, net of related tax	-	-	-	251	-	251	-	251
Unrealised valuation movements, net of related change in amortisation of deferred income and acquisition costs and related tax	-	-	-	-	478	478	-	478
Total other comprehensive income	-	-	-	251	478	729	-	729
Total comprehensive income for the year	-	-	1,431	251	478	2,160	5	2,165
Dividends	-	-	(511)	-	-	(511)	-	(511)
Reserve movements in respect of share-based payments	-	-	37	-	-	37	-	37
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC								
with-profits fund and other consolidated investment funds	-	-	-	-	-	-	7	7

Share capital and share premium								
New share capital subscribed (including shares issued in lieu of cash dividends)	-	75	-	-	-	75	-	75
Reserve movements in respect of shares issued in lieu of cash dividends	-	(62)	62	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	(4)	-	-	(4)	-	(4)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	3	-	-	3	-	3
Net increase in equity	-	13	1,018	251	478	1,760	12	1,772
At beginning of year	127	1,843	3,964	203	134	6,271	32	6,303
At end of year	127	1,856	4,982	454	612	8,031	44	8,075

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	2011 £m	2010 £m
Assets		
Intangible assets attributable to shareholders:		
Goodwillnote O	1,465	1,466
Deferred acquisition costs and other intangible assetsnote P	5,069	4,667
Total	6,534	6,133



Intangible assets attributable to with-profits funds:

In respect of acquired subsidiaries for venture fund and other investment purposes	178	166
Deferred acquisition costs and other intangible assets	89	110
Total	267	276

Total	6,801	6,409
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Other non-investment and non-cash assets:

Property, plant and equipment	748	554
Reinsurers' share of insurance contract liabilities	1,647	1,344
Deferred tax assetsnote J	2,276	2,188
Current tax recoverable	546	555
Accrued investment income	2,710	2,668
Other debtors	987	903
Total	8,914	8,212

Investments of long-term business and other operations:

Investment properties	10,757	11,247
Investments accounted for using the equity method	70	71
Financial investments*:		
Loansnote R	9,714	9,261
Equity securities and portfolio holdings in unit trusts	87,349	86,635
Debt securitiesnote S	124,498	116,352
Other investments	7,509	5,779
Deposits	10,708	9,952

Total	250,605	239,297
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Properties held for sale	3	257
Cash and cash equivalents	7,257	6,631
Total assetsnote M	273,580	260,806

\*Included within financial investments are £7,843 million (2010: £8,708 million) of lent securities.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December

	2011 £m	2010 £m
Equity and liabilities		
Equity		
Shareholders' equity	9,117	8,031
Non-controlling interests	43	44
Total equity	9,160	8,075
Liabilities		
Policyholder liabilities and unallocated surplus of with-profits funds:		
Insurance contract liabilities	180,363	171,291

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Investment contract liabilities with discretionary participation features	29,745	25,732
Investment contract liabilities without discretionary participation features	16,967	17,704
Unallocated surplus of with-profits funds	9,215	10,253
Total	236,290	224,980
Core structural borrowings of shareholder-financed operations:		
Subordinated debt	2,652	2,718
Other	959	958
Total note U	3,611	3,676
Other borrowings:		
Operational borrowings attributable to shareholder-financed operationsnote V	3,340	3,004
Borrowings attributable to with-profits operationsnote V	972	1,522
Other non-insurance liabilities:		
Obligations under funding, securities lending and sale and repurchase agreements	3,114	4,199
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,840	3,372
Deferred tax liabilitiesnote J	4,211	4,224
Current tax liabilities	930	831
Accruals and deferred income	736	707
Other creditors	2,544	2,321
Provisions	529	729
Derivative liabilities	3,054	2,037
Other liabilities	1,249	1,129
Total	20,207	19,549
Total liabilities	264,420	252,731
Total equity and liabilitiesnote M	273,580	260,806

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	2011	2010
Year ended 31 December 2011	£m	£m
Cash flows from operating activities		
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)	1,926	2,072
Non-cash movements in operating assets and liabilities reflected in profit before tax:		
Investments	(8,854)	(24,594)
Other non-investment and non-cash assets	(1,038)	(1,161)
Policyholder liabilities (including unallocated surplus)	10,874	24,287
Other liabilities (including operational borrowings)	(845)	1,332
Interest income and expense and dividend income included in result before tax	(7,449)	(7,514)
Other non-cash items note (ii)	18	139
Operating cash items:		
Interest receipts	6,365	6,277

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Dividend receipts	1,302	1,412
Tax paid	(561)	(302)
Net cash flows from operating activities	1,738	1,948
Cash flows from investing activities		
Purchases of property, plant and equipment	(124)	(93)
Proceeds from disposal of property, plant and equipment	10	4
Acquisition of subsidiaries, net of cash balance note (iii)	(53)	(145)
Net cash flows from investing activities	(167)	(234)
Cash flows from financing activities		
Structural borrowings of the Group:		
Shareholder-financed operations notes (iv) and W:		
Issue of subordinated debt, net of costs	340	-
Redemption of senior debt	(333)	-
Bank loan	-	250
Interest paid	(286)	(251)
With-profits operations notes (v) and Y:		
Interest paid	(9)	(9)
Equity capital note (vi):		
Issues of ordinary share capital	17	13
Dividends paid	(642)	(449)
Net cash flows from financing activities	(913)	(446)
Net increase in cash and cash equivalents	658	1,268
Cash and cash equivalents at beginning of year	6,631	5,307
Effect of exchange rate changes on cash and cash equivalents	(32)	56
Cash and cash equivalents at end of year	7,257	6,631

Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
- (ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax together with, other net items, net purchases of treasury shares and other net movements in equity.
- (iii) The acquisition of subsidiaries in 2011 related to the PAC with-profits fund's purchase of Earth and Wind and Alticom venture investments with an outflow of £53 million. In 2010 the acquisition of United Overseas Bank Life Assurance Limited (UOB) resulted in an outflow of cash from investing activities of £133 million with the remaining outflow of £12 million relating to the PAC with-profits fund purchase of Meterserve.
- (iv) Structural borrowings of shareholder-financed operations comprise the core debt of the parent company, a PruCap bank loan and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- (v) Interest paid structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
- (vi) Cash movements in respect of equity capital in 2010 exclude scrip dividends. The scrip dividend alternative has been replaced by the Dividend Re-investment Plan (DRIP) from the 2010 final dividend.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

## NOTES ON THE IFRS BASIS RESULTS

### A Basis of preparation and audit status

The statutory basis results included in this announcement have been extracted from the audited financial statements of the Group for the year ended 31 December 2011. These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2002). EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the two years ended 31 December 2011 affecting the consolidated financial information of the Group and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group. The auditors have reported on the 2011 statutory accounts. The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2011 or 2010 but is derived from these accounts.

Statutory accounts for 2010 have been delivered to the registrar of companies, and those for 2011 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

### B Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2010, except for the adoption of the new accounting pronouncements in 2011 as described below.

#### Accounting pronouncements adopted in 2011

The Group has adopted the following accounting pronouncements in 2011 but their adoption has had no material impact on the results and financial position of the Group:

- Improvements to IFRSs (2010), which includes minor changes to seven IFRSs;
  - Amendments to IAS 12, 'Income taxes';
  - Amendments to IAS 24, 'Related party disclosures';
- Amendments to IFRIC 14, 'Prepayment of a minimum funding requirement'; and
  - IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

This is not intended to be a complete list of accounting pronouncements effective in 2011 as only those that could have an impact upon the Group's financial statements have been discussed.

#### Adoption of altered US GAAP requirements for Group IFRS reporting in 2012

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

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

The effect of the change is as follows:

	Year ended 31 December 2011			Year ended 31 December 2010		
	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m	As reported under current policy £m	Effect of change £m	Under new policy from 1 Jan 2012 £m
Profit after tax and non controlling interests	1,490	(75)	1,415	1,431	(125)	1,306
Shareholders' equity	9,117	(553)	8,564	8,031	(510)	7,521

C Segment disclosure - income statement

	2011 £m	2010 £m
Asian operations		
Insurance operations note E(i)	709	536
Development expenses	(5)	(4)
Total Asian insurance operations after development expenses	704	532
Eastspring Investments	80	72
Total Asian operations	784	604
US operations		
Jackson (US insurance operations) note E(ii)	694	833
Broker-dealer and asset management	24	22
Total US operations	718	855
UK operations		
UK insurance operations:note E (iii)		
Long-term business	683	673
General insurance commission note (i)	40	46
Total UK insurance operations	723	719
M&G	357	284
Total UK operations	1,080	1,003

Total segment profit	2,582	2,462
Other income and expenditure		
Investment return and other income	22	30
Interest payable on core structural borrowings	(286)	(257)
Corporate expenditure note H	(219)	(223)
Total	(483)	(450)
RPI to CPI inflation measure change on defined benefit pension schemes note (ii)	42	-
Solvency II implementation costs	(55)	(45)
Restructuring costs note (iii)	(16)	(26)
Operating profit based on longer-term investment returns	2,070	1,941
Short-term fluctuations in investment returns on shareholder-backed business note F	(148)	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes note (iv)	21	(10)
Costs of terminated AIA transaction note I	-	(377)
Gain on dilution of Group holdings note G	-	30
Profit before tax attributable to shareholders	1,943	1,461

## Notes

- (i) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the net commission received net of expenses for Prudential-branded general insurance products as part of this arrangement.
- (ii) During 2011 the Group altered its inflation measure basis for future statutory increases to pension payments for certain tranches of its UK defined benefit pension schemes. This reflects the UK Government's decision to replace the basis of indexation from RPI with CPI. This resulted in a credit to the operating profit before tax of £42 million.
- (iii) Restructuring costs are incurred in the UK as part of EEV covered business and represent one-off expenses incurred in securing expense savings. 2011: £16 million (2010: £26 million).
- (iv) The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

## Determining operating segments and performance measure of operating segments

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

## Insurance operations

- Asia
- US (Jackson)
- UK

## Asset management operations

- M&G (including Prudential Capital)
- Eastspring investments (the new brand name for Asian asset management)
- US broker-dealer and asset management (including Curian)

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

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit

pension schemes. In addition for 2010 this measure excluded costs associated with the terminated AIA transaction and gain arising upon the dilution of the Group's holding in PruHealth. Operating earnings per share is based on operating profit based on longer-term investment returns, after tax and non-controlling interests.

Segment results that are reported to the 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 Asian Regional Head Office.

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

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

- Assets backing unit-linked and US variable annuity business separate account liabilities. For such business, the policyholder unit liabilities are directly reflective of the asset value movements.

Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

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

(a) Debt and equity-type securities

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

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

The shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent is Jackson. 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 Black Rock Solutions to determine the average annual RMR. Further details of the RMR charge, as well as the amortisation of interest related realised gains and losses, for Jackson are shown in note F(b).

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

At 31 December 2011 the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £462 million (31 December 2010: £373 million).

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

As at 31 December 2011, the equity-type securities for US insurance non-separate account operations amounted to £902 million (31 December 2010: £852 million). For these operations, the longer term rates of return for income and capital applied in 2011 ranged from 5.9 per cent to 7.5 per cent for equity-type securities such as common and preferred stock and portfolio holdings in mutual funds and from 7.9 per cent to 9.5 per cent for certain other equity-type securities such as investments in limited partnerships and private equity funds (2010: 6.5 per cent to 7.9 per cent and 8.5 per cent to 9.9 per cent, respectively).

For Asian insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £590 million as at 31 December 2011 (31 December 2010: £506 million). Of this balance, £88 million (31 December 2010: £101 million) related to the Group's 7.37 per cent (31 December 2010: 8.66 per cent) stake in China Life Insurance Company of Taiwan. This £88 million (31 December 2010: £101 million) investment is in the nature of a trade investment for which the determination of longer-term investment returns is on the basis as described in note (e) below. For the investments representing the other equity securities which had year end balances of £502 million (31 December 2010: £405 million), the rates of return applied in the years 2011 and 2010 ranged from 1.7 per cent to 13.8 per cent with the rates applied varying by territory.

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

(b) US variable and fixed index annuity business

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

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



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

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

(c) Other derivative value movements

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

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

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

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

Examples where such bifurcation is necessary are:

(i) Asia

- Vietnamese participating business

For the participating business in Vietnam the liabilities include policyholders' interest in investment appreciation and other surplus. Bonuses paid in a reporting period and accrued policyholders' interest in investment appreciation and other surpluses primarily reflect the level of realised investment gains above contract specific hurdle levels. For this business, operating profit based on longer-term investment returns includes the aggregate of longer-term returns on the relevant investments, a credit or charge equal to movements on the liability for the policyholders' interest in realised investment gains (net of any recovery of prior deficits on the participating pool), less amortisation over five years of current and prior movements on such credits or charges.

The overall purpose of these adjustments is to ensure that investment returns included in operating results equal longer-term returns but that in any one reporting period movements on liabilities to policyholders caused by investment returns are substantially matched in the presentation of the supplementary analysis of profit before tax attributable to policyholders.

- Non-participating business

Bifurcation for the effect of determining the movement in the carrying value of liabilities to be included in operating results based on longer-term investment returns, and the residual element for the effect of using year end rates is

included in short-term fluctuations and in the income statement.

- **Guaranteed Minimum Death Benefit (GMDB) product features**

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB ASC subtopic 944-80, Financial Services - Insurance - Separate Accounts (formerly SOP 03-1), which partially reflects changes in market conditions. Under the company's segmental basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

(ii) **UK shareholder-backed annuity business**

With one exception, the operating result based on longer-term investment returns reflects the impact of all value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund.

The exception is for the impact on credit risk provisioning of actual downgrades during the period. As this feature arises due to short-term market conditions, the effect of downgrades, if any, in a particular period, on the overall provisions for credit risk is included in the category of short-term fluctuations in investment returns.

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 the Group's internal benchmark.

(e) **Fund management and other non-insurance businesses**

For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

**Additional segmental analysis of revenue**

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

	2011				
	Asia £m	US £m	UK £m	Intragroup £m	Total £m
Revenue from external customers:					
Insurance operations	7,307	12,516	5,740	-	25,563
Asset management	290	653	923	(323)	1,543
Unallocated corporate	-	-	40	-	40
Intragroup revenue eliminated on consolidation	(93)	(68)	(162)	323	-
Total revenue from external customers	7,504	13,101	6,541	-	27,146

	2010				
	Asia £m	US £m	UK £m	Intragroup £m	Total £m

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Revenue from external customers:

Insurance operations	6,373	11,710	6,476	(10)	24,549
Asset management	248	597	768	(314)	1,299
Unallocated corporate	-	-	29	-	29
Intragroup revenue eliminated on consolidation	(77)	(72)	(175)	324	-
Total revenue from external customers	6,544	12,235	7,098	-	25,877

Revenue from external customers is made up of the following:

	2011 £m	2010 £m
Earned premiums, net of reinsurance	25,277	24,211
Fee income from investment contract business and asset management (presented as 'Other income')	1,869	1,666
Total revenue from external customers	27,146	25,877

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

	2011 £m	2010 £m
Intragroup revenue generated by:		
M&G	162	165
Eastspring Investments	93	77
US broker-dealer and asset management (including Curian)	68	72
Total intragroup fees included within asset management segment	323	314

In 2010 a further £10 million of intragroup revenue was recorded between UK insurance operations for services, typically charged as a percentage of funds under management.

Revenue from external customers of Asian, US and UK insurance operations shown above are net of outwards reinsurance premiums of £226 million, £72 million, and £131 million respectively (2010: £146 million, £83 million and £128 million respectively).

D Profit before tax - Asset management operations

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

M&G £m	US £m	Eastspring Investments note (iv) £m	Total 2011 £m	Total 2010 £m
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Revenue, (excluding revenue of consolidated investment funds and NPH broker-dealer fees)	1,042	249	292	1,583	1,423
Revenue of consolidated investment fundsnote (i)	9	-	-	9	11
NPH broker-dealer feesnote (i)	-	405	-	405	369
Gross revenue	1,051	654	292	1,997	1,803
Charges, (excluding charges of consolidated investment funds and NPH broker-dealer fees)	(710)	(225)	(212)	(1,147)	(1,003)
Charges of consolidated investment fundsnote (i)	(9)	-	-	(9)	(11)
NPH broker-dealer feesnote (i)	-	(405)	-	(405)	(369)
Gross charges	(719)	(630)	(212)	(1,561)	(1,383)
Profit before tax	332	24	80	436	420
Comprising:					
Operating profit based on longer-term investment returnsnote (ii)	357	24	80	461	378
Short-term fluctuations in investment returns note (iii)	(29)	-	-	(29)	47
Shareholder's share of actuarial gains and losses on defined benefit pension schemes	4	-	-	4	(5)
Profit before tax	332	24	80	436	420

Notes

(i) Under IFRS 8, disclosure details are required of segment revenue. The segment revenue of the Group's asset management operations is required to include two items that are for amounts which, reflecting their commercial nature, are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from these two items which are:

- (a) Investment funds which are managed on behalf of third parties and are consolidated under IFRS in recognition of the control arrangements for the funds. The gains and losses of these funds are non-recourse to M&G and the Group, and
- (b) NPH broker-dealer fees which represent commissions received, which are then paid on to the writing brokers on sales of investment products.

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

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

	2011	2010
	£m	£m
Asset management fee income	702	612
Other income	4	3
Staff costs	(285)	(263)
Other costs	(141)	(123)
Underlying profit before performance-related fees	280	229
Performance-related fees	21	17
Operating profit from asset management operations	301	246
Operating profit from Prudential Capital	56	38
Total M&G operating profit based on longer-term investment returns	357	284

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown (excluding consolidated investment funds) in the main table primarily relates to total revenue of Prudential Capital (including short-term fluctuations) of £96 million (2010: £136 million) and

commissions which have been netted off in arriving at the fee income of £702 million (2010: £612 million) in the table above. The difference in the presentation of commission is aligned with how management reviews the business.

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

(iv) Included within Eastspring Investments revenue and charges are £44 million of commissions (2010: £60 million).

#### E Key assumptions, estimates and bases used to measure insurance assets and liabilities

##### (i) Asian insurance operations

In 2011, IFRS operating profit based on longer-term investment returns for Asian insurance operations included a net £38 million credit arising from a small number of items that are not anticipated to reoccur in future periods. In 2010, one-off changes made to reserving assumptions resulted in a release from liabilities of £19 million.

##### (ii) US insurance operations

Accelerated amortisation of deferred acquisition costs

Jackson National Life has consistently applied its basis of amortising deferred acquisition costs. The basis involves a mean reversion technique for dampening the effects of short-term market movements on expected gross profits, against which deferred acquisition costs are amortised. To the extent that the mean reversion methodology does not fully dampen the effects of market returns there is a charge or credit for accelerated or decelerated amortisation. For 2011 there was a charge for accelerated amortisation of £232 million (2010: £11 million). Further details are explained in note P.

##### (iii) UK insurance operations

Annuity business: allowance for credit risk

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

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

(a) the expected level of future defaults;

(b) the credit risk premium that is required to compensate for the potential volatility in default levels;

(c) the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps; and

(d) the mark-to-market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

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

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

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 31 December 2011 and 31 December 2010, based on the asset mix at the relevant balance sheet date are shown below.

	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS
31 December 2011	(bps)	(bps)	(bps)
Bond spread over swap rates note (i)	201		201
Credit risk allowance			
Long-term expected defaults note (ii)	15	-	15
Additional provisionsnote (iii)	51	(24)	27
Total credit risk allowance	66	(24)	42
Liquidity premium	135	24	159

	Pillar 1 regulatory basis	Adjustment from regulatory to IFRS basis	IFRS
31 December 2010	(bps)	(bps)	(bps)
Bond spread over swap rates note (i)	160	-	160
Credit risk allowance			
Long-term expected defaults note (ii)	16	-	16
Additional provisionsnote (iii)	52	(26)	26
Total credit risk allowance	68	(26)	42
Liquidity premium	92	26	118

Notes

- (i) Bond spread over swap rates reflect market observed data.
- (ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard and Poor's and Fitch.
- (iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk, and an additional allowance for short-term defaults.

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

Movement in the credit risk allowance for PRIL for the year ended 31 December 2011

The movement during 2011 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis (bps)	IFRS (bps)
	Total	Total
Total allowance for credit risk at 31 December 2010	68	42
Credit rating changes	2	2
Asset trading	(1)	(1)
Asset mix (effect of market value movements)	(2)	(1)
New business and other	(1)	-

Total allowance for credit risk at 31 December 2011

66

42

In prior periods, surplus from favourable default experience has been retained within short-term allowances for credit risk on both the Pillar 1 and IFRS bases. For full year 2011 the retention of such surpluses continues to be applied to IFRS but not for Pillar 1.

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 33 per cent (2010: 43 per cent) of the bond spread over swap rates. For IFRS purposes it represents 20 per cent (2010: 26 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2011 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis Total £bn	IFRS Total £bn
PRIL	1.8	1.2
PAC non-profit sub-fund	0.2	0.1
Total	2.0	1.3

#### Mortality and other assumption changes 2011

In 2011, for the shareholder-backed business, the aggregate effect of assumption changes other than the allowance for credit risk described above was a net charge to the shareholder results of £9 million, comprising a number of individually small assumption changes.

#### 2010

Prior to 31 December 2010, Prudential's annuity business liabilities were determined using the Continuous Mortality Investigation ('CMI') medium cohort projections with a floor. In November 2009 a new mortality projection model was released by the CMI. This new model was applied in determining the 31 December 2010 valuation results with calibration to reflect an appropriate view of future mortality improvement. In recognition of the trend in assumed mortality improvements the Company had in previous years included margins in its annuity liabilities. In determining the results for the year ended 31 December 2010 the appropriate level of these margins was reassessed.

The net effect of applying the new model, releases of margins, and changes to other related mortality assumption for shareholder-backed business was a credit of £8 million in the 2010 results. With a £38 million benefit from altered expense assumptions the overall credit for shareholder-backed business in 2010 was £46 million.

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

		2011 £m	2010 £m
Insurance operations:			
	Asia note (ii)	(92)	114
	US note (iii)	(95)	(378)
	UK note (iv)	159	116
Other operations			

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	- Other note (v)	(120)	25
Totalnote (i)		(148)	(123)

Notes

(i) General overview of defaults

The Group did not experience any defaults on its shareholder-backed debt securities portfolio in 2011 and 2010.

(ii) Asian insurance operations

The fluctuations for Asian insurance operations of negative £92 million (2010: positive £114 million) in part reflects equity market falls in Taiwan and a partial reversal of unrealised gains recognised in prior years on the Group's 7.37 per cent (2010:8.66 per cent) stake in China Life Insurance Company of Taiwan.

(iii) US insurance operations

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

	2011 £m	2010 £m
Short-term fluctuations relating to debt securities:		
Charges in the year		
Defaults	-	-
Losses on sales of impaired and deteriorating bonds	(32)	(99)
Bond write downs	(62)	(124)
Recoveries / reversals	42	10
Total charges in the yearnote (a)	(52)	(213)
Less: Risk margin charge included in operating profit based on longer-term investment returnsnote (b)	70	73
	18	(140)
Interest related realised gains:		
Arising in the year	158	224
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(84)	(82)
	74	142
Related change to amortisation of deferred acquisition costs	(4)	(3)
Total short-term fluctuations related to debt securities	88	(1)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs)note (c)	472	(15)
Net equity hedge results (principally guarantees and derivatives, net of related change to amortisation of deferred acquisition costs) note (d)	(632)	(365)
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs)C	-	3
Other items (net of related change to amortisation of deferred acquisition costs)	(23)	-
Total	(95)	(378)

The short-term fluctuations shown in the table above are stated net of the related change to amortisation of deferred acquisition costs of £359 million (2010: £358 million) See note P.

Notes

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

Defaults	Bond	Recoveries/	Total	Total
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	£m	write downs £m	Losses on sale of impaired and deteriorating bonds £m	reversals £m	2011 £m	2010 £m
Residential mortgage-backed securities:						
Prime (including agency)	-	(19)	(6)	-	(25)	(56)
Alt-A	-	(2)	(5)	6	(1)	(54)
Sub-prime	-	-	(1)	1	-	(13)
Total residential mortgage-backed securities	-	(21)	(12)	7	(26)	(123)
Corporate debt securities	-		(18)	4	(14)	(37)
Other	-	(41)	(2)	31	(12)	(53)
Total	-	(62)	(32)	42	(52)	(213)

(b) The risk margin reserve (RMR) charge for longer-term credit related losses included in operating profit based on longer-term investment returns of Jackson for 2011 is based on an average annual RMR of 25 basis points (2010: 26 basis points) on average book values of US\$44.4 billion (2010: \$44.2 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of MBS)	2011				2010			
	Average book value US\$m	RMR %	US\$m	Annual expected loss £m	Average book value US\$m	RMR %	US\$m	Annual expected loss £m
A3 or higher	21,255	0.08	(17)	(11)	20,622	0.06	(12)	(8)
Baa1, 2 or 3	20,688	0.26	(54)	(34)	20,785	0.26	(53)	(34)
Ba1, 2 or 3	1,788	1.04	(19)	(11)	1,935	1.04	(20)	(13)
B1, 2 or 3	474	3.01	(14)	(9)	500	2.99	(15)	(10)
Below B3	211	3.88	(8)	(5)	321	3.88	(13)	(8)
Total	44,416	0.25	(112)	(70)	44,163	0.26	(113)	(73)
Related change to amortisation of deferred acquisition costs (see below)								
			27	17			28	18
Risk margin reserve charge to operating profit for longer-term credit related losses								
			(85)	(53)			(85)	(55)

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

(c) The gain of £472 million (2010: loss of £15 million) is principally for the value movement of non-equity freestanding derivatives held to manage interest rate exposures, duration matching and for the GMIB reinsurance asset that is considered to be a derivative under IAS 39.

Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement. For the derivatives programme attaching to the fixed annuity and other general account business, the Group has continued its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

(d) The amount of £632 million in 2011 (2010: £365 million) relates to the net equity hedge accounting effect of the equity-based derivatives and associated guarantee liabilities of Jackson's variable and fixed index annuity business. The details of the value movements excluded from operating profit based on longer-term investment returns are as described in note C. The principal movements are for (i) value for free standing and GMWB 'not for life' embedded derivatives, (ii) accounting values for GMDB and GMWB 'for life' guarantees and (iii) related changes to DAC amortisation. These movements include the effect of lower interest rates which were particularly significant in 2011. The value movements on derivatives held to manage this and other interest rate exposure are included in the £472 million (2010: loss of £15 million) described above in note (c).

In addition to the items discussed above, for US insurance operations, included within the statement of comprehensive income is an increase in net unrealised gains on debt securities classified as available-for-sale of £811 million (2010: increase in net unrealised gains of £1,221 million). Temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note T.

(iv) UK insurance operations

The short-term fluctuations gain for UK insurance operations of £159 million (2010: £116 million) principally reflect net investment gains arising in the period on fixed income assets backing the capital of the shareholder-backed annuity business.

(v) Other operations

Short-term fluctuations of other operations were negative £120 million (2010: positive £25 million) representing unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

## G Changes to Group's holdings

### 2010

On 1 August 2010, Discovery Holdings of South Africa, the Group's joint venture partner in its investment in PruHealth, completed the acquisition of the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for £138 million. Discovery funded the purchase of the Standard Life Healthcare transaction, and contributed Standard Life Healthcare to PruHealth as a capital investment on completion. As a result of the transaction, Discovery increased their shareholding in PruHealth from the previous level of 50 per cent to 75 per cent, and Prudential's shareholding was reduced from 50 per cent of the previous joint venture structure to 25 per cent of the new structure with the much enlarged business.

As a result of this dilution in holding and the consequential loss of control, PruHealth was reclassified from a joint venture to an associate and the entity was no longer proportionally consolidated from the date of the transaction. In

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accordance with IAS 31 'Interests in joint ventures' a gain of £30 million arose in 2010 upon the dilution, representing the difference between the fair value of the enlarged 25 per cent investment still held and the book value of the original 50 per cent investment holding.

### H Acquisition costs and other expenditure

	2011	2010
	£m	£m
Acquisition costs incurred	2,264	2,024
Acquisition costs deferred less amortisation of acquisition costs	(635)	(918)
Administration costs and other expenditure	3,524	3,496
Movements in amounts attributable to external unit holders	(148)	197
Total acquisition costs and other expenditure	5,005	4,799

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

Included within total acquisition costs and other expenditure is depreciation of £95 million (2010: £70 million).

The total amounts for acquisition costs and other expenditure shown above includes Corporate Expenditure shown in note C (Segment disclosure - income statement). The charge for Corporate Expenditure comprises:

		2011	2010
		£m	£m
Group head office			
	Regular and project costs	(156)	(150)
	Provision for property leases and other non-recurrent items	(12)	(25)
		(168)	(175)
Asia regional office			
	Gross costs	(86)	(90)
	Recharges to Asia operations	35	42
		(51)	(48)
Total		(219)	(223)

### I Costs of terminated AIA transaction in 2010

The following costs were incurred in the first six months of 2010 in relation to the proposed, and subsequently terminated transaction, to purchase AIA Group Limited and related rights issue.

	2010
	£m
AIG termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
Total costs before tax	377
Associated tax relief	(93)

Total costs after tax

284

Of the £377 million total costs before tax, the £100 million associated with foreign exchange hedging has been recorded within 'Investment return' and the other £277 million has been recorded as 'Other expenditure' within 'Acquisition costs and other expenditure' in the consolidated income statement.

## J Tax

## i Tax charge

The total tax charge comprises:

	2011		2010
	Current	Deferred	
	tax	tax	Total
	£m	£m	£m
Tax charge			Total
UK tax	(475)	455	(20)
Overseas tax	(267)	(145)	(412)
Total tax charge*	(742)	310	(432)

\*The 2010 tax charge attributable to shareholders' returns included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

The current tax charge of £742 million includes £16 million (2010: charge of £13 million) in respect of the tax charge for Hong Kong. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) five per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

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

	2011		2010
	Current	Deferred	
	tax	tax	Total
	£m	£m	£m
Tax charge			Total
Tax credit (charge) to policyholders' returns	(410)	427	17
Tax charge attributable to shareholders	(332)	(117)	(449)
Total tax charge	(742)	310	(432)

The principal reason for the reduction in the tax charge attributable to policyholders' returns relates to a decrease in deferred tax on unrealised gains and losses on investments.

The tax charge attributable to shareholders of £449 million for 2011 (2010: charge of £25 million) comprises:

	2011		2010
	Current	Deferred	
	tax	tax	Total
	£m	£m	£m
Tax charge attributable to shareholders			Total
UK tax	(135)	17	(118)
Overseas tax	(197)	(134)	(331)

Total tax charge	(332)	(117)	(449)	(25)
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An explanation of the movement in tax charge attributable to shareholders is shown in note (iii) below.

## ii Deferred tax

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

	2011		2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	£m	£m	£m	£m
Unrealised gains and losses on investments	297	(1,566)	449	(1,678)
Balances relating to investment and insurance contracts	13	(949)	11	(1,057)
Short-term timing differences	1,513	(1,687)	1,152	(1,477)
Capital allowances	15	(9)	16	(12)
Unused tax losses	438	-	560	-
Total	2,276	(4,211)	2,188	(4,224)

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

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2011 results and financial position at 31 December 2011 the possible tax benefit of approximately £158 million (31 December 2010: £143 million), which may arise from capital losses valued at approximately £0.7 billion (31 December 2010: £0.5 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £147 million (31 December 2010: £298 million), which may arise from trading tax losses and other potential temporary differences totalling £0.6 billion (31 December 2010: £1.2 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £142 million will expire within the next 9 years. The remaining losses have no expiry date.

In the two tables that follow the Group has provided a further breakdown of the recognised deferred tax assets for both the short-term timing differences and unused tax losses split by business unit set out in the table at (ii) above. In addition we have detailed the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits are not significantly impacted by any current proposed changes to future accounting standards.

	2011 £m	Expected period of recoverability
Short-term timing differences		
Asia	65	3 to 5 years
JNL	1,206	70% to 90% within 10 years *
UK Long Term Business	141	1 to 7 years
Other	101	3 to 10 years
Total	1,513	

\* The remainder is expected to be recovered within 20 years

	2011	
Unused tax losses	£m	Expected period of recoverability
Asia	28	3 to 5 years
UK Long Term Business	11	1 to 3 years
Other	399	1 to 3 years
Total	438	

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

The UK government's tax rate change to 25 per cent (from the current 26 per cent which was effective from 1 April 2011) has had the effect of reducing the UK with-profits and shareholder-backed business element of the net deferred tax balances as at 31 December 2011 by £26 million. The tax change to 25 per cent is effective from 1 April 2012 but has been enacted at 31 December 2011.

The subsequent proposed phased rate changes to 23 per cent are expected to have the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances at 31 December 2011 by £45 million.

### iii Reconciliation of tax charge on profit attributable to shareholders

	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
2011			£m (except for tax rates)		
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns note (iii)	704	694	723	(51)	2,070
Short-term fluctuations in investment returns	(92)	(95)	159	(120)	(148)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	18	3	21
Total	612	599	900	(168)	1,943
Expected tax rate:note (i)					
Operating profit based on longer-term investment returns note (iii)	24%	35%	27%	27%	28%
Short-term fluctuations in investment returns	20%	35%	27%	27%	28%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	0%	0%	27%	27%	27%
Expected tax (charge) credit based on expected tax rates:					

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Operating profit based on longer-term investment returns note (iii)	(169)	(243)	(195)	14	(593)
Short-term fluctuations in investment returns	18	33	(43)	32	40
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(5)	(1)	(6)
Total	(151)	(210)	(243)	45	(559)
Variance from expected tax charge: note (ii)					
Operating profit based on longer-term investment returns note (iii)	47	43	5	50	145
Short-term fluctuations in investment returns	(20)	-	8	(24)	(36)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	-	1
Total	27	43	14	26	110
Actual tax (charge) credit:					
Operating profit based on longer-term investment return	(122)	(200)	(190)	64	(448)
Short-term fluctuations in investment returns	(2)	33	(35)	8	4
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(4)	(1)	(5)
Gain on dilution of Group's holdings	-	-	-	-	-
Total	(124)	(167)	(229)	71	(449)
Actual tax rate:					
Operating profit based on longer-term investment returns	17%	29%	26%	125%	22%
Total profit	20%	28%	25%	42%	23%

2010	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	Total
		£m (except for tax rates)			

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Profit (loss) before tax attributable to shareholders:

Operating profit based on longer-term investment returns note (iii)	532	833	719	(143)	1,941
Short-term fluctuations in investment returns	114	(378)	116	25	(123)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	(5)	(5)	(10)
Costs of terminated AIA transaction	-	-	-	(377)	(377)
Gain on dilution of Group's holdings	-	-	30	-	30
Total	646	455	860	(500)	1,461

Expected tax rate:note (i)

Operating profit based on longer-term investment returns note (iii)	22%	35%	28%	28%	29%
Short-term fluctuations in investment returns	25%	35%	28%	28%	52%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	28%	28%	20%
Costs of terminated AIA transaction	-	-	-	28%	28%
Gain on dilution of Group's holdings	-	-	28%	-	28%

Expected tax (charge) credit based on expected tax rates:

Operating profit based on longer-term investment returns note (iii)	(117)	(292)	(201)	40	(570)
Short-term fluctuations in investment returns	(29)	132	(32)	(7)	64
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	1	2
Costs of terminated AIA transaction	-	-	-	106	106
Gain on dilution of Group's holdings	-	-	(8)	-	(8)

Total (146) (160) (240) 140 (406)

Variance from expected tax charge: note (ii)

Operating profit based on longer-term investment returns note (iii)	59	43	18	237	357
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Short-term fluctuations in investment returns	21	-	-	7	28
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	-	1	1
Costs of terminated AIA transaction	-	-	-	(13)	(13)
Gain on dilution of Group's holdings	-	-	8	-	8
Total	80	43	26	232	381
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns, excluding exceptional tax credit					
note (iii)	(58)	(249)	(183)	119	(371)
Exceptional tax credit*	-	-	-	158	158
Operating profit based on longer-term investment return	(58)	(249)	(183)	277	(213)
Short-term fluctuations in investment returns	(8)	132	(32)	-	92
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	-	-	1	2	3
Costs of terminated AIA transaction	-	-	-	93	93
Gain on dilution of Group's holdings	-	-	-	-	-
Total	(66)	(117)	(214)	372	(25)
Actual tax rate:					
Operating profit based on longer-term investment returns	11%	30%	25%	194%	11%
Total profit	10%	26%	25%	74%	2%
Actual tax rate (excluding exceptional tax credit*):					
Operating profit based on longer-term investment returns	11%	30%	25%	83%	19%
Total profit	10%	26%	25%	43%	13%

\* The tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

#### Notes

(i) Expected tax rates for profit (loss) attributable to shareholders:

- The expected tax rates shown in the table above reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions.

- For Asian operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result.
- The expected tax rate for Other operations reflects the mix of business between UK and overseas operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.

(ii) For 2011 and 2010, the principal variances arise from a number of factors, including:

(a) Asian long-term operations

For 2011 and 2010, profits in certain countries which are not taxable along with utilising brought forward tax losses on which no deferred tax assets were previously recognised partly offset by the inability to fully recognise deferred tax assets on losses being carried forward. The increase in the overall Asia tax rate from 2010 to 2011 primarily reflects recent fiscal developments in Indonesia affecting the life insurance industry.

(b) Jackson

For 2011 and 2010, the benefit reflects the deduction from taxable income of a proportion of dividends received attributable to the variable annuity business.

(c) UK insurance operations

For 2011 the benefit reflects the effect of the reduction in UK corporation tax rate on deferred tax liabilities and the different tax bases of UK life business, partially offset by routine revisions to prior period tax returns. For 2010, the benefit arises from routine revisions to prior period tax returns and the different tax bases of UK life business.

(d) Other operations

For 2011 the settlement of outstanding issues with HMRC at an amount below that previously provided, partly offset by prior year adjustments arising from the revisions of prior period tax returns. For 2010, an exceptional tax credit which primarily related to the impact of the settlement agreed with the UK tax authorities and the ability to recognise a deferred tax credit on various tax losses which we were previously unable to recognise, partly offset by the inability to fully recognise a tax credit in respect of non deductible capital costs incurred in relation to the terminated AIA transaction.

(iii) Operating profit based on longer-term investment returns is net of attributable restructuring costs and development expenses.

Related tax charges are determined on the basis of current taxation legislation.

## K Supplementary analysis of earnings per share

	2011					
	Before tax note C £m	Tax note J £m	Non-controlling interests £m	Net of tax and non-controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment return	2,070	(448)	(4)	1,618	63.9 p	63.8 p
Short-term fluctuations in investment returns on shareholder-backed business	(148)	4	-	(144)	(5.7)p	(5.7)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	21	(5)	-	16	0.6 p	0.6 p
Based on profit for the year	1,943	(449)	(4)	1,490	58.8 p	58.7 p

	2010					
	Before tax note C £m	Tax note J £m	Non- controlling interests £m	Net of tax and non-controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns, excluding exceptional tax credit	1,941	(371)	(5)	1,565	62.0 p	61.9 p
Exceptional tax credit*	-	158	-	158	6.3 p	6.3 p
Based on operating profit based on longer-term investment return	1,941	(213)	(5)	1,723	68.3 p	68.2 p
Short-term fluctuations in investment returns on shareholder-backed business	(123)	92	-	(31)	(1.2)p	(1.2)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(10)	3	-	(7)	(0.3)p	(0.3)p
Costs of terminated AIA transaction	(377)	93	-	(284)	(11.3)p	(11.3)p
Gain on dilution of Group's holdings	30	-	-	30	1.2 p	1.2 p
Based on profit for the year including exceptional tax credit	1,461	(25)	(5)	1,431	56.7 p	56.6 p

\* The tax charge attributable to shareholders' return included an exceptional tax credit of £158 million which primarily related to the impact of a settlement agreed with the UK tax authorities.

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

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

	2011 (in millions)	2010 (in millions)
Weighted average number of shares for calculation of:		
Basic earnings per share	2,533	2,524
Diluted earnings per share	2,538	2,529

## L Dividend

	2011	2010
Dividends per share (in pence)		
Dividends relating to reporting year:		
Interim dividend	7.95 p	6.61 p
Final dividend	17.24p	17.24 p
Total	25.19p	23.85 p
Dividends declared and paid in reporting year:		
Current year interim dividend	7.95 p	6.61 p
Final/second interim dividend for prior year	17.24 p	13.56 p
Total	25.19 p	20.17 p

## Dividend per share

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2010 of 17.24 pence per ordinary share was paid to eligible shareholders on 26 May 2011 and the 2011 interim dividend of 7.95 pence per ordinary share was paid to eligible shareholders on 22 September 2011.

The 2011 final dividend of 17.24 pence per ordinary share will be paid on 24 May 2012 in sterling to shareholders on the principal register and the Irish branch register at 6.00 p.m. BST on Friday, 30 March 2012 (the 'Record Date'), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 p.m. Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about five days after the payment date of the dividend to shareholders on the principal register. The final dividend will be paid on or about 31 May 2012 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00 p.m. Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 12 March 2012. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG\$ will be determined by CDP. The dividend will distribute an estimated £439 million of shareholders' funds.

In line with 2010, shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

## M Statement of financial position - analysis of Group position by segment and business type

## (i) Group statement of financial position analysis

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

Position at 31  
December 2011:

	Insurance operations				Unallocated to a segment (central operations)				2011 Group total	2010 Group total
	UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations £m		Intra-group eliminations £m			
By operating segment										
Assets										
Intangible assets attributable to shareholders:										
Goodwill note O	-	-	235	235	1,230	-	-	1,465	1,466	
Deferred acquisition costs and other intangible assets note P	113	3,900	1,027	5,040	16	13	-	5,069	4,667	
Total	113	3,900	1,262	5,275	1,246	13	-	6,534	6,133	
Intangible assets attributable to										

with-profits funds:									
In respect of									
acquired									
subsidiaries for									
venture fund and									
other investment									
purposes	178	-	-	178	-	-	-	178	166
Deferred									
acquisition costs									
and other									
intangible assets	6	-	83	89	-	-	-	89	110
Total	184	-	83	267	-	-	-	267	276
Total	297	3,900	1,345	5,542	1,246	13	-	6,801	6,409
Deferred tax assets									
note J	231	1,392	115	1,738	129	409	-	2,276	2,188
Other non investment									
and non-cash assets	4,771	1,542	1,024	7,337	1,000	4,532	(6,231)	6,638	6,024
Investment of long									
term business and									
other operations:note									
(i)									
Investment									
properties	10,712	35	10	10,757	-	-	-	10,757	11,247
Investments									
accounted for									
using the equity									
method	70	-	-	70	-	-	-	70	71
Financial investments:									
Loans note R	3,115	4,110	1,233	8,458	1,256	-	-	9,714	9,261
Equity securities									
and portfolio									
holdings in unit									
trusts	36,722	38,036	11,997	86,755	594	-	-	87,349	86,635
Debt securities									
note S	77,953	27,022	17,681	122,656	1,842	-	-	124,498	116,352
Other									
investments	4,568	2,376	470	7,414	78	17	-	7,509	5,779
Deposits	9,287	167	1,165	10,619	89	-	-	10,708	9,952
Total investments	142,427	71,746	32,556	246,729	3,859	17	-	250,605	239,297
Properties held for sale									
	-	3	-	3	-	-	-	3	257
Cash and cash									
equivalents	2,965	271	1,977	5,213	1,735	309	-	7,257	6,631
Total assets	150,691	78,854	37,017	266,562	7,969	5,280	(6,231)	273,580	260,806

	Insurance operations				Unallocated to a			2011 Group total £m	2010 Group total £m
	UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations £m	segment (central operations) £m	Intra- group eliminations £m		
By operating segment									
Equity and liabilities									
Equity									
Shareholders' equity	2,581	4,271	2,349	9,201	1,783	(1,867)	-	9,117	8,031
Non-controlling interests	33	-	5	38	5	-	-	43	44
Total equity	2,614	4,271	2,354	9,239	1,788	(1,867)	-	9,160	8,075
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	82,732	67,278	30,358	180,363	-	-	-	180,363	171,291
Investment contract liabilities with discretionary participation features	29,348	-	397	29,745	-	-	-	29,745	25,732
Investment contract liabilities without discretionary participation features	14,944	1,911	112	16,967	-	-	-	16,967	17,704
Unallocated surplus of with-profits funds	9,165	-	50	9,215	-	-	-	9,215	10,253
Total policyholder liabilities and unallocated surplus of with-profits funds	136,189	69,189	30,912	236,290	-	-	-	236,290	224,980
Core structural borrowings of shareholder financed operations:									
Subordinated debt	-	-	-	-	-	2,652	-	2,652	2,718
Other	-	160	-	160	250	549	-	959	958
Total note U	-	160	-	160	250	3,201	-	3,611	3,676
Operational borrowings attributable to shareholder financed operations note V	103	127	141	371	13	2,956	-	3,340	3,004
Borrowings attributable to with-profits operations note V	972	-	-	972	-	-	-	972	1,522
Other non-insurance liabilities:	1,945	1,169	-	3,114	-	-	-	3,114	4,199

Obligations under funding, securities lending and sale and repurchase agreements										
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	2,043	18	1,101	3,162	678	-	-	3,840	3,372	
Deferred tax liabilities note J	1,349	2,093	513	3,955	5	251	-	4,211	4,224	
Current tax liabilities note J	553	-	116	669	106	155	-	930	831	
Accruals and deferred income	321	-	103	424	290	22	-	736	707	
Other creditors note (ii)	2,829	548	660	4,037	4,493	245	(6,231)	2,544	2,321	
Provisions	266	13	47	326	133	70	-	529	729	
Derivative liabilities	1,298	887	480	2,665	182	207	-	3,054	2,037	
Other liabilities	209	379	590	1,178	31	40	-	1,249	1,129	
Total	10,813	5,107	3,610	19,530	5,918	990	(6,231)	20,207	19,549	
Total liabilities	148,077	74,583	34,662	257,323	6,181	7,147	(6,231)	264,420	252,731	
Total equity and liabilities	150,691	78,854	37,012	266,562	7,969	5,280	(6,231)	273,580	260,806	

## Notes

(i) Within other non-investment and non-cash assets are premiums receivable of £265 million (2010: £196 million) which are all due within one year except for a small number of products where charges are levied against premiums in future years.

(ii) Other creditors amounts are due within one year.

## Further segmental analysis:

The non-current assets of the Group comprise goodwill, intangible assets other than DAC and present value of acquired in-force business and property, plant and equipment included within 'other non-investment and non-cash assets'. Items defined as financial instruments or related to insurance contracts are excluded. The Group's total non-current assets at 31 December comprise:

	2011 £m	2010 £m
UK including insurance operations, M&G and Central operations	1,906	1,708
US	144	131
Asia*	681	615
Total	2,731	2,454

\*No individual country in Asia held non-current assets at the end of the year which exceeds 10 per cent of the Group total.

(ii) Group statement of financial position - additional analysis by business type

	Shareholder-backed business						2011 Group total £m	2010 Group total £m
	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m		
Assets								
Intangible assets attributable to shareholders:								
Goodwill note O	-	-	235	1,230	-	-	1,465	1,466
Deferred acquisition costs and other intangible assets note P	-	-	5,040	16	13	-	5,069	4,667
Total	-	-	5,275	1,246	13	-	6,534	6,133
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	178	-	-	-	-	-	178	166
Deferred acquisition costs and other intangible assets	89	-	-	-	-	-	89	110
Total	267	-	-	-	-	-	267	276
Total	267	-	5,275	1,246	13	-	6,801	6,409
Deferred tax assets note J	101	2	1,635	129	409	-	2,276	2,188
Other non investment and non-cash assets	2,622	457	4,258	1,000	4,532	(6,231)	6,638	6,024
Investment of long term business and other operations:								
Investment properties	8,461	682	1,614	-	-	-	10,757	11,247
Investments accounted for using the equity	-	-	70	-	-	-	70	71



method									
Financial investments:									
Loans note R	2,747	-	5,711	1,256	-	-	9,714	9,261	
Equity securities and portfolio holdings in unit trusts	26,047	59,890	818	594	-	-	87,349	86,635	
Debt securities note S	57,232	8,861	56,563	1,842	-	-	124,498	116,352	
Other investments	4,423	113	2,878	78	17	-	7,509	5,779	
Deposits	7,207	1,544	1,868	89	-	-	10,708	9,952	
Total investments	106,117	71,090	69,522	3,859	17	-	250,605	239,297	
Properties held for sale	-	-	3	-	-	-	3	257	
Cash and cash equivalents	2,564	1,245	1,404	1,735	309	-	7,257	6,631	
Total assets	111,671	72,794	82,097	7,969	5,280	(6,231)	273,580	260,806	

### Shareholder-backed business

	Participating funds £m	Unit-linked and variable annuity £m	Non-linked business £m	Asset management operations £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	2011 Group total £m	2010 Group total £m
Equity and liabilities								
Equity								
Shareholders' equity	-	-	9,201	1,783	(1,867)	-	9,117	8,031
Non-controlling interests	33	-	5	5	-	-	43	44
Total equity	33	-	9,206	1,788	(1,867)	-	9,160	8,075
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Contract liabilities (including	93,569	71,129	62,377	-	-	-	227,075	214,727

amounts in respect of contracts classified as investment contracts under IFRS 4) Unallocated surplus of with-profits funds	9,215	-	-	-	-	-	9,215	10,253
Total policyholder liabilities and unallocated surplus of with-profits funds	102,784	71,129	62,377	-	-	-	236,290	224,980
Core structural borrowings of shareholder-financed operations: note U								
Subordinated debt	-	-	-	-	2,652	-	2,652	2,718
Other	-	-	160	250	549	-	959	958
Total	-	-	160	250	3,201	-	3,611	3,676
Operational borrowings attributable to shareholder financed operations note V	-	1	370	13	2,956	-	3,340	3,004
Borrowings attributable to with-profits operations note V	972	-	-	-	-	-	972	1,522
Deferred tax liabilities	1,215	33	2,707	5	251	-	4,211	4,224
Other non-insurance liabilities	6,667	1,631	7,277	5,913	739	(6,231)	15,996	15,325
Total liabilities	111,638	72,794	72,891	6,181	7,147	(6,231)	264,420	252,731
Total equity and liabilities	111,671	72,794	82,097	7,969	5,280	(6,231)	273,580	260,806

## N Statement of financial position - analysis of segment by business type

## i UK insurance operations

## Overview

- In order to show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of fund and business, the analysis below is structured to show separately assets and liabilities of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund

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(WPSF), unit-linked assets and liabilities and annuity (principally PRIL) and other long-term business.

- £92.6 billion of the £142.4 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

	PAC with-profits fund note (i)				Other funds and subsidiaries				2011 Total	2010 Total
	Scottish Amicable Insurance Fund note (ii)	Excluding Prudential Annuities Limited	Prudential Annuities Limited note (iii)	Total note (iv)	Unit-linked assets and liabilities	Annuity and other long-term business	Total			
By operating segment	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Intangible assets attributable to shareholders:										
Deferred acquisition costs and other intangible assets	-	-	-	-	-	113	113	113	120	
Total	-	-	-	-	-	113	113	113	120	
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	-	178	-	178	-	-	-	178	166	
Deferred acquisition costs	-	6	-	6	-	-	-	6	13	
Total	-	184	-	184	-	-	-	184	179	
Total	-	184	-	184	-	113	113	297	299	
Deferred tax assets	-	99	2	101	-	130	130	231	214	
Other non investment and non-cash assets	413	1,799	107	1,906	364	2,088	2,452	4,771	4,631	
Investment of long term business and other operations:										
Investment properties	571	7,164	726	7,890	682	1,569	2,251	10,712	11,212	
Investments accounted for	-	-	-	-	-	70	70	70	69	

using the  
equity method  
Financial  
investments:

Loans note R	143	1,752	78	1,830	-	1,142	1,142	3,115	2,302
Equity securities and portfolio holdings in unit trusts	2,448	20,685	170	20,855	13,394	25	13,419	36,722	40,519
Debt securities note S	4,349	37,696	5,633	43,329	6,115	24,160	30,275	77,953	74,304
Other investmentsnote (v)	281	3,550	306	3,856	87	344	431	4,568	3,998
Deposits	693	6,155	236	6,391	966	1,237	2,203	9,287	9,022
Total investments	8,485	77,002	7,149	84,151	21,244	28,547	49,791	142,427	141,426
Properties held for sale	-	-	-	-	-	-	-	-	254
Cash and cash equivalents	112	1,636	191	1,827	666	360	1,026	2,965	2,839
Total assets	9,010	80,720	7,449	88,169	22,274	31,238	53,512	150,691	149,663

	PAC with-profits fund note (i)				Other funds and subsidiaries				
	Scottish Amicable Insurance Fund note (ii)	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited note (iii) £m	Total note (iv) £m	Unit-linked assets and liabilities £m	Annuity and other long-term business £m	Total £m	2011 Group Total £m	2010 Group Total £m
Equity and liabilities									
Equity									
Shareholders' equity	-	-	-	-	-	2,581	2,581	2,581	2,148
Non-controlling interests	-	33	-	33	-	-	-	33	35
Total equity	-	33	-	33	-	2,581	2,581	2,614	2,183
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	8,555	67,098	5,323	72,421	21,281	24,767	46,048	127,024	125,530

Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) note (vi)	-	7,743	1,422	9,165	-	-	-	9,165	10,187
Total	8,555	74,841	6,745	81,586	21,281	24,767	46,048	136,189	135,717
Operational borrowings attributable to shareholder financed operations	-	-	-	-	1	102	103	103	162
Borrowings attributable to with-profits funds	17	955	-	955	-	-	-	972	1,522
Deferred tax liabilities	41	691	135	826	-	482	482	1,349	1,738
Other non-insurance liabilities	397	4,200	569	4,769	992	3,306	4,298	9,464	8,341
Total liabilities	9,010	80,687	7,449	88,136	22,274	28,657	50,931	148,077	147,480
Total equity and liabilities	9,010	80,720	7,449	88,169	22,274	31,238	53,512	150,691	149,663

## Notes

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

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

(iii) Wholly-owned subsidiary of the PAC WPSF that writes annuity business. The closing liabilities are significantly lower than in 2010 due to a recapture of business by the PAC WPSF.

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

(v) Other investments comprise:

	2011	2010
	£m	£m
Derivative assets*	1,461	926
Partnerships in investment pools and other**	3,107	3,072
	4,568	3,998

\* In the UK, Prudential uses derivatives to reduce equity and credit risk, interest rate and currency exposures, and to facilitate efficient portfolio management. After derivative liabilities of £1,298 million (2010: £792 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £163 million

(2010: £134 million).

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

(vii) Unallocated surplus of with-profits funds

Prudential's long-term business written in the UK comprises predominantly life insurance policies under which the policyholders are entitled to participate in the returns of the funds supporting these policies. Business similar to this type is also written in certain of the Group's Asian operations, subject to local market and regulatory conditions. Such policies are called with-profits policies. Prudential maintains with-profits funds within the Group's long-term business funds, which segregate the assets and liabilities and accumulate the returns related to that with-profits business. The amounts accumulated in these with-profits funds are available to provide for future policyholder benefit provisions and for bonuses to be distributed to with-profits policyholders. The bonuses, both annual and final, reflect the right of the with-profits policyholders to participate in the financial performance of the with-profits funds. Shareholders' profits with respect to bonuses declared on with-profits business correspond to the shareholders' share of the cost of bonuses as declared by the Board of Directors. The shareholders' share currently represents one-ninth of the cost of bonuses declared for with-profits policies.

The unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds. As allowed under IFRS 4, the Group has opted to continue to record unallocated surplus of with-profits funds wholly as a liability. 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, is transferred to (from) the unallocated surplus each year through a (charge) credit to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation of investments.

ii US insurance operations

	2011		2010	
	Variable annuity separate account assets and liabilities note (i) £m	Fixed annuity, GIC and other business note (i) £m	Total £m	Total £m
Assets				
Intangible assets attributable to shareholders:				
Deferred acquisition costs and other intangibles	-	3,900	3,900	3,559
Total	-	3,900	3,900	3,559
Deferred tax assets	-	1,392	1,392	1,391
Other non-investment and non-cash assets	-	1,542	1,542	1,225
Investments of long-term business and other operations:				
Investment properties	-	35	35	26
Financial investments:				
Loansnote R	-	4,110	4,110	4,201
Equity securities and portfolio holdings in unit trustsnote (iv)	37,833	203	38,036	31,501

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Debt securitiesnote U	-	27,022	27,022	26,366
Other investmentsnote (ii)	-	2,376	2,376	1,199
Deposits	-	167	167	212
Total investments	37,833	33,913	71,746	63,505
Properties held for sale	-	3	3	3
Cash and cash equivalents	-	271	271	232
Total assets	37,833	41,021	78,854	69,915
Equity and liabilities				
Equity				
Shareholders' equity	-	4,271	4,271	3,815
Total equity	-	4,271	4,271	3,815
Liabilities				
Policyholder:				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	37,833	31,356	69,189	60,523
Total	37,833	31,356	69,189	60,523
Core structural borrowings of shareholder-financed operations	-	160	160	159
Operational borrowings attributable to shareholder-financed operations	-	127	127	90
Deferred tax liabilities	-	2,093	2,093	1,776
Other non-insurance liabilities	-	3,014	3,014	3,552
Total liabilities	37,833	36,750	74,583	66,100
Total equity and liabilities	37,833	41,021	78,854	69,915

Notes

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

(ii) Other investments comprise:

	2011	2010
	£m	£m
Derivative assets*	1,677	645
Partnerships in investment pools and other**	699	554
	2,376	1,199

\* In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management to match liabilities under annuity policies, and for certain equity-based product management activities. After taking account of the derivative liability of £887 million (2010: £799 million), which is also included in the statement of financial position, the derivative position for US operations is a net asset of £790 million (2010: net liability of £154 million).

\*\* Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in 167 (2010: 161) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Changes in shareholders' equity

2011 2010

	£m	£m
Operating profit based on longer-term investment returns note C	694	833
Short-term fluctuations in investment returns note F	(95)	(378)
Profit before shareholder tax	599	455
Tax note J	(167)	(117)
Profit for the year	432	338
	2011	2010
	£m	£m
Profit for the year (as above)	432	338
Items recognised in other comprehensive income:		
Exchange movements	42	85
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding gains arising during the year	912	1,170
Deduct net (gains) / add back net losses included in the income statement	(101)	51
Total unrealised valuation movements	811	1,221
Related change in amortisation of deferred income and acquisition costs note P	(331)	(496)
Related tax	(168)	(247)
Total other comprehensive income	354	563
Total comprehensive income for the year	786	901
Dividends, interest payments to central companies and other movements	(330)	(97)
Net increase in equity	456	804
Shareholders' equity at beginning of year	3,815	3,011
Shareholders' equity at end of year	4,271	3,815

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

### iii Asian insurance operations

	2011	2010			
	With-profits business note (i) £m	Unit-linked assets and liabilities £m	Other £m	Total £m	Total £m
Assets					
Intangible assets attributable to shareholders:					
Goodwill	-	-	235	235	236
Deferred acquisition costs and other intangible assets	-	-	1,027	1,027	962
Total	-	-	1,262	1,262	1,198
Intangible assets attributable to with-profits funds:					
Deferred acquisition costs and other intangible assets	83	-	-	83	97
Deferred tax assets	-	2	113	115	98
Other non-investment and non-cash assets	303	93	628	1,024	788
Investments of long-term business and other operations:					
Investment properties	-	-	10	10	9



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Investments accounted for using the equity method	-	-	-	-	2
Financial investments:					
Loans note R	774	-	459	1,233	1,340
Equity securities and portfolio holdings in unit trusts	2,744	8,663	590	11,997	14,464
Debt securities note S	9,554	2,746	5,381	17,681	14,108
Other investments	286	26	158	470	382
Deposits	123	578	464	1,165	638
Total investments	13,481	12,013	7,062	32,556	30,943
Cash and cash equivalents	625	579	773	1,977	1,601
Total assets	14,492	12,687	9,838	37,017	34,725
Equity and liabilities					
Equity					
Shareholders' equity	-	-	2,349	2,349	2,149
Non-controlling interests	-	-	5	5	5
Total equity	-	-	2,354	2,354	2,154
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	12,593	12,015	6,254	30,862	28,674
Unallocated surplus of with-profits funds note (ii)	50	-	-	50	66
Total	12,643	12,015	6,254	30,912	28,740
Operational borrowings attributable to shareholders-financed operations	-	-	141	141	189
Deferred tax liabilities	348	33	132	513	495
Other non-insurance liabilities	1,501	639	957	3,097	3,147
Total liabilities	14,492	12,687	7,484	34,663	32,571
Total equity and liabilities	14,492	12,687	9,838	37,017	34,725

Note

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

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

iv Asset management operations

	M&G note (i) £m	US £m	Eastspring Investments £m	Total 2011 £m	Total 2010 £m
Assets					
Intangible assets:					
Goodwill note (iii)	1,153	16	61	1,230	1,230
	12	1	3	16	13

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	Deferred acquisition costs and other intangibles assets				
Total	1,165	17	64	1,246	1,243
Other non-investment and non-cash assetsnote (iii)	868	179	82	1,129	1,118
Financial investments:					
Loansnote R	1,256	-	-	1,256	1,418
Equity securities and portfolio holdings in unit trusts	587	-	7	594	151
Debt securitiesnote S	1,834	-	8	1,842	1,574
Other investments	72	1	5	78	59
Deposits	30	28	31	89	80
Total financial investmentsnote (iii)	3,779	29	51	3,859	3,282
Cash and cash equivalents	1,533	45	157	1,735	1,436
Total assets	7,345	270	354	7,969	7,079
Equity and liabilities					
Equity					
Shareholders' equity	1,382	129	272	1,783	1,787
Non-controlling interests	5	-	-	5	4
Total equity	1,387	129	272	1,788	1,791
Liabilities					
Core structural borrowing of shareholder-financed operations	250	-	-	250	250
Intra-group debt represented by operational borrowings at Group level note (ii)	2,956	-	-	2,956	2,560
Net asset value attributable to external holders of consolidated unit trusts and similar funds note (iii)	678	-	-	678	458
Other non-insurance liabilitiesnote (iv)	2,074	141	82	2,297	2,020
Total liabilities	5,958	141	82	6,181	5,288
Total equity and liabilities	7,345	270	354	7,969	7,079

Notes

(i) M&G includes those assets and liabilities in respect of Prudential Capital.

(ii) Intra group debt represented by operational borrowings at Group level

Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2011	2010
	£m	£m
Commercial paper	2,706	2,311
Medium-term notes	250	249
Total intra-group debt represented by operational borrowings at Group level	2,956	2,560

(iii) Consolidated investment funds

The M&G statement of financial position shown above includes investment funds which are managed on behalf of third-parties.

In respect of these funds, the statement of financial position includes the following, which are non-recourse to M&G and the Group:

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	2011 £m	2010 £m
Cash and cash equivalents	348	304
Total investments	415	167
Other net assets and liabilities	(85)	(13)
Net asset value attributable to external unit holders	(678)	(458)
Shareholders' equity	-	-

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

O Goodwill attributable to shareholders

	2011 £m	2010 £m
Cost		
At 1 January	1,586	1,430
Acquisition of UOB Life Assurance Limited in Singapore	-	141
Exchange differences	(1)	15
At 31 December	1,585	1,586
Aggregate impairment	(120)	(120)
Net book amount at 31 December	1,465	1,466

Goodwill attributable to shareholders comprises:

	2011 £m	2010 £m
M&G	1,153	1,153
Other	312	313
	1,465	1,466

'Other' represents goodwill amounts allocated to entities in Asia and US operations. Other goodwill amounts are not individually material.

P Deferred acquisition costs and other intangible assets attributable to shareholders

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the realistic FSA regimes, these costs are accounted for in a way that is consistent with the principles of the ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. In general, this deferral is presentationally shown by an explicit carrying value for deferred acquisition costs (DAC) in the balance sheet. However, in some Asian operations the deferral is implicit through the reserving methodology. The recoverability of the explicitly and implicitly deferred acquisition costs is measured and are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

The deferral and amortisation of acquisition costs is of most relevance to the Group's results for shareholder-financed long-term business of Jackson and Asian operations. The majority of the UK shareholder-backed business is

individual and group annuity business where the incidence of acquisition costs is negligible.

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

	2011 £m	2010 £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	4,640	4,316
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	107 4,747	110 4,426
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	64	70
Other intangibles*	258 322	171 241
Total of deferred acquisition costs and other intangible assets	5,069	4,667 *

\* At 31 December 2010 as previously published, tangible assets included computer software with a net book value of £58 million, which in these financial statements have been more appropriately classified as other intangible assets. These amounts have been transferred to other intangible assets and the comparative balances have been adjusted accordingly. This is only a presentational adjustment with no impact on the Group's results or shareholders' equity.

	Deferred acquisition costs				PVIF and		
	UK	US	Asia	Asset	Other	Total	Total
	£m	note (i) £m	£m	management £m	intangibles £m	2011 £m	2010 £m
Balance at 1 January	116	3,543	758	9	241	4,667	4,097
Additions	16	890	256	7	120	1,289	1,162
Acquisitions of subsidiaries	-	-	-	-	-	-	12
Amortisation to the income statement:							
Operating profit	(21)	(619)	(242)	(4)	(35)	(921)	(595)
Amortisation related to short-term fluctuations in investment returns	-	359	-	-	-	359	358
	(21)	(260)	(242)	(4)	(35)	(562)	(237)
Exchange differences	-	38	(28)	-	(2)	8	141
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	-	(331)	-	-	-	(331)	(496)
Disposals	-	-	-	-	(2)	(2)	(5)
Dilution of Group's holdings	-	-	-	-	-	-	(7)
Balance at 31 December	111	3,880	744	12	322	5,069	4,667

## Note

- (i) The DAC amount in respect of US insurance operations includes:

	2011	2010
	£m	£m
Variable annuity business	3,860	2,834
Other business	886	1,229
Cumulative shadow DAC	(866)	(520)
Total DAC for US operations	3,880	3,543

## Overview of the deferral and amortisation of acquisition costs for Jackson

Under IFRS 4, the Group applies grandfathered US GAAP for measuring the insurance assets and liabilities of Jackson. In the case of Jackson term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with a combination of historical and future expected gross profits on the relevant contracts. For fixed and indexed annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. Expected gross profits also depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual mortality, lapse and expense experience is performed using internally developed experience studies.

As with fixed and indexed annuity and interest-sensitive life business, acquisition costs for Jackson's variable annuity products are amortised in line with the emergence of profits. The measurement of the amortisation in part reflects current period fees (including those for guaranteed minimum death, income, or withdrawal benefits) earned on assets covering liabilities to policyholders, and the historical and expected level of future gross profits which depends on the assumed level of future fees, as well as components related to mortality, lapse and expense.

## Mean reversion technique

Under US GAAP (as grandfathered under IFRS 4) the projected gross profits, against which acquisition costs are amortised, reflect an assumed long-term level of investment return from the separate accounts which, for Jackson, is 8.4 per cent after deduction of net external fund management fees. This is applied to the period end level of separate account assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market returns.

Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current year, the 8.4 per cent annual return is realised on average over the entire eight year period. Projected returns after the mean reversion period revert back to the 8.4 per cent assumption.

However, to ensure that the methodology does not over anticipate a reversion to trend following adverse markets, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both after deduction of net external fund management fees) in each year. The capping feature was relevant in late 2008, 2009 and 2010 due to the very sharp market falls in 2008. At 31 December 2011, the projected rate of return for the next five years is now less than 8.4 per cent. If Jackson had not applied the mean reversion methodology and had instead applied a constant 8.4 per cent from asset values at 31 December 2011, the Jackson DAC balance would increase by approximately £38 million from £3,880 million to £3,918 million (31 December 2010 decrease of £80 million from £3,543 million to £3,463 million).

#### Sensitivity of amortisation charge

In 2008, the application of the mean reversion technique benefited the results by £110 million. In 2009 and 2010, whilst the cap was in effect, the credit of £ 39 million for decelerated amortisation and the charge of £11 million for accelerated amortisation reflected the difference between market returns for the period and the assumed level of 15 per cent.

For 2011, the separate account return (net of all fees) was approximately negative four per cent. The DAC amortisation charge included in operating profit includes £232 million of accelerated amortisation. This amount reflects the combined effect of

- (i) the separate account performance in the year as it compares with the assumed level for the year; and
- (ii) the reduction in the previously assumed future rates of return for the upcoming 5 years from 15 per cent, to a level somewhat below the middle of the corridor (of 0 and 15 per cent), so that in combination with the historical returns, the 8- year average in the mean reversion calculation is the 8.4 per cent long-term assumption.

The reduction in assumed future rates reflects in large part the elimination from the calculation in 2011, of the negative 2008 returns. Setting aside other complications and the growth in the book, the 2011 accelerated amortisation can be broadly equated as 'paying back' the benefit experienced in 2008.

However, as explained in note B it is the Company's intention to adopt the US Financial Accounting Standards Board requirements in EITF Update No 2010 -26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' from 1 January 2012 into Prudential's Group IFRS reporting for the results of Jackson and those Asian operations that use US GAAP for measuring insurance assets and liabilities. Under the Update insurers are required to capitalise only those incremental costs directly related to acquiring a contract from 1 January 2012. This change has two principal effects on the 2011 and 2010 results which are to be retrospectively adjusted in the 2012 Group financial statements.

- (i) Charging of acquisition costs for business written in the year that can no longer be deferred.

For 2011 and 2010, £156 million and £158 million of acquisition costs will be charged to the operating results of Jackson for these years. These charges are for the non-incremental acquisition costs for new business written in these years, as shown in note Y, representing 12 per cent of APE of £1,251 million and 14 per cent of £ 1,164 million, respectively.

- (ii) Reduced amortisation charge for retrospectively adjusted deferred acquisition costs

On application of the Update, Jackson's

- (i) deferred acquisition costs balance for business in force at 31 December 2011 will be retrospectively reduced by 20 per cent, from £3,880 million to £3,095 million.
- (ii) amortisation charge to the 2011 operating profit based on longer-term investment returns is retrospectively adjusted by 18 per cent from £619 million (comprising £387 million core charge and £232 million accelerated amortisation) to £506 million (comprising £316 million core charge and £190 million accelerated amortisation). The core charge alters from representing 29 per cent to
  - 24 per cent of operating profit, based on longer-term investment returns before DAC amortisation and the charge for acquisition costs for business written in the year that can no longer be deferred, and
  - 27per cent of operating profit, based on longer-term investment returns before DAC amortisation but after the charge for acquisition costs for business written in the year that can no longer be deferred.

(iii) the amortisation charge to the 2010 operating profit based on longer-term investment returns is retrospectively adjusted by 16 per cent from £334 million (comprising £323 million core charge and £11 million accelerated amortisation) to £280 million (comprising £271 million core charge and £9 million accelerated amortisation). The core charge alters from representing 28 per cent to

- 23 per cent of operating profit based on longer-term investment returns before DAC amortisation and the charge for acquisition costs for business written in the year that can no longer be deferred, and
- 27 per cent of operating profit, based on longer-term investment returns before DAC amortisation but after the charge for acquisition costs for business written in the year that can no longer be deferred.

For 2012, the impact of application of the Update on the new business strain for non-incremental acquisition costs and amortisation charge to operating profits based on longer-term investment returns and the DAC balance in the statement of financial position is expected to follow a broadly similar pattern to those described above.

On the assumption that market returns for 2012 are within the range of negative 15 per cent to positive 15 per cent, the estimated effect on the amortisation charge, under the new DAC basis described above, is a range from acceleration of £100 million to deceleration of £100 million

#### Q Valuation bases for Group assets

The accounting carrying values of the Group's assets reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. The basis applied for the assets section of the statement of financial position at 31 December 2011 is summarised below:

	2011			2010		
	At fair	Cost / Amortised cost	Total	At fair	Cost / Amortised cost	Total
	value	note (i)		value	note (i)	
	£m	£m	£m	£m	£m	£m
Intangible assets attributable to shareholders:						
Goodwill (note O)	-	1,465	1,465	-	1,466	1,466
Deferred acquisition costs and other intangible assets (note P)	-	5,069	5,069	-	4,667	4,667
Total	-	6,534	6,534	-	6,133	6,133
Intangible assets attributable to with-profits funds:						
In respect of acquired subsidiaries for venture fund and other investment purposes	-	178	178	-	166	166
Deferred acquisition costs and other intangible assets	-	89	89	-	110	110
Total	-	267	267	-	276	276
Total	-	6,801	6,801	-	6,409	6,409
Other non-investment and non-cash assets:						
Property, plant and equipment	-	748	748	-	554	554
Reinsurers' share of insurance contract liabilities	-	1,647	1,647	-	1,344	1,344
Deferred tax assets (note J)	-	2,276	2,276	-	2,188	2,188
Current tax recoverable	-	546	546	-	555	555
Accrued investment income	-	2,710	2,710	-	2,668	2,668

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Other debtors	-	987	987	-	903	903
Total	-	8,914	8,914	-	8,212	8,212
Investments of long-term business and other operations:note (ii)						
Investment properties	10,757	-	10,757	11,247	-	11,247
Investments accounted for using the equity method	-	70	70	-	71	71
Loans (note R)	279	9,435	9,714	227	9,034	9,261
Equity securities and portfolio holdings in unit trusts	87,349	-	87,349	86,635	-	86,635
Debt securities (note S)	124,498	-	124,498	116,352	-	116,352
Other investments	7,509	-	7,509	5,779	-	5,779
Deposits	-	10,708	10,708	-	9,952	9,952
Total	230,392	20,213	250,605	220,240	19,057	239,297
Properties held for sale	3	-	3	257	-	257
Cash and cash equivalents	-	7,257	7,257	-	6,631	6,631
Total assets	230,395	43,185	273,580	220,497	40,309	260,806
Percentage of Group total assets	84%	16%	100%	85%	15%	100%

Notes

- (i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.
- (ii) Realised gains and losses on the Group's investments for 2011 amounted to a net gain of £4.3 billion (2010: £3.1 billion)

Determination of fair value

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

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

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



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

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third-parties or valued internally using standard market practices. In accordance with the Group's risk management framework, all internally generated valuations are subject to assessment against external counterparties' valuations.

For investment contracts in the US with fixed and guaranteed terms the fair value is determined based on the present value of future cash flows discounted at current interest rates.

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

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

The table below includes financial instruments carried at fair value analysed by level of the IFRS 7 defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

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

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

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

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

Level 2 includes investments where a direct link to an actively traded price is not readily apparent, but which are valued using inputs which are largely observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

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

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

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

Of the total level 2 debt securities of £94,378 million at 31 December 2011 (31 December 2010: £89,948 million), £6,847 million are valued internally (31 December 2010: £6,638 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

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

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

At 31 December 2011 the Group held £4,565 million (2010: £4,573 million), two per cent of the fair valued financial investments, net of derivative liabilities (2010: two per cent), within level 3. Of these amounts £3,732 million (2010: £3,705 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments. At 31 December 2011, the £3,732 million (2010: £3,705 million) represented 4.3 per cent (2010: 4.2 per cent) of the total level 3 fair valued financial instruments, net of derivative liabilities of the participating funds.

Of the £800 million level 3 fair valued financial investments, net of derivative liabilities at 31 December 2011 (2010: £866 million), which support non-linked shareholder-backed business (representing 1.3 per cent of the total fair valued financial investments net of derivative liabilities backing this business (2010: 1.6 per cent)), £757 million of net assets are externally valued and £43 million of net liabilities are internally valued (2010: net assets of £728 million and £138 million respectively). Internal valuations, which represent 0.1 per cent of the total fair valued financial investments net of derivative liabilities supporting non-linked shareholder-backed business at 31 December 2011 (2010: 0.2 per cent), are inherently more subjective than external valuations.

	31 December 2011			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				

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Equity securities and portfolio holdings in unit trusts	24,001	1,762	284	26,047
Debt securities	13,298	43,279	655	57,232
Other investments (including derivative assets)	252	1,378	2,793	4,423
Derivative liabilities	(214)	(1,127)	-	(1,341)
Total financial investments, net of derivative liabilities	37,337	45,292	3,732	86,361
Percentage of total	43%	53%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	59,662	198	30	59,890
Debt securities	4,160	4,698	3	8,861
Other investments (including derivative assets)	18	95	-	113
Derivative liabilities	(2)	(7)	-	(9)
Total financial investments, net of derivative liabilities	63,838	4,984	33	68,855
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	-	279	-	279
Equity securities and portfolio holdings in unit trusts	1,175	176	61	1,412
Debt securities	11,753	46,401	251	58,405
Other investments (including derivative assets)	30	2,237	706	2,973
Derivative liabilities	(78)	(1,408)	(218)	(1,704)
Total financial investments, net of derivative liabilities	12,880	47,685	800	61,365
Percentage of total	21%	78%	1%	100%

Group total analysis, including other financial liabilities held at fair value

Group total				
Loans	-	279	-	279
Equity securities and portfolio holdings in unit trusts	84,838	2,136	375	87,349
Debt securities	29,211	94,378	909	124,498
Other investments (including derivative assets)	300	3,710	3,499	7,509
Derivative liabilities	(294)	(2,542)	(218)	(3,054)
Total financial investments, net of derivative liabilities	114,055	97,961	4,565	216,581
Borrowings attributable to the with-profits fund held at fair value	-	(39)	-	(39)
Investment contracts liabilities without discretionary participation features held at fair value	-	(15,056)	-	(15,056)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,586)	(805)	(449)	(3,840)
Other financial liabilities held at fair value	-	(281)	-	(281)
Total financial instruments at fair value	111,469	81,780	4,116	197,365
Percentage of total	57%	41%	2%	100%

	31 December 2010			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Analysis of financial investment, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	29,675	1,281	415	31,371

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Debt securities	11,114	41,375	772	53,261
Other investments (including derivative assets)	137	1,207	2,543	3,887
Derivative liabilities	(56)	(626)	(25)	(707)
Total financial investments, net of derivative liabilities	40,870	43,237	3,705	87,812
Percentage of total	47%	49%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	54,272	2	-	54,274
Debt securities	3,784	5,268	2	9,054
Other investments (including derivative assets)	43	88	-	131
Total financial investments, net of derivative liabilities	58,099	5,358	2	63,459
Percentage of total	92%	8%	0%	100%
Non-linked shareholder-backed				
Loans	-	227	-	227
Equity securities and portfolio holdings in unit trusts	808	21	161	990
Debt securities	10,389	43,305	343	54,037
Other investments (including derivative assets)	52	1,146	563	1,761
Derivative liabilities	(80)	(1,049)	(201)	(1,330)
Total financial investments, net of derivative liabilities	11,169	43,650	866	55,685
Percentage of total	20%	78%	2%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	227	-	227
Equity securities and portfolio holdings in unit trusts	84,755	1,304	576	86,635
Debt securities	25,287	89,948	1,117	116,352
Other investments (including derivative assets)	232	2,441	3,106	5,779
Derivative liabilities	(136)	(1,675)	(226)	(2,037)
Total financial investments, net of derivative liabilities	110,138	92,245	4,573	206,956
Borrowings attributable to the with-profits fund held at fair value	-	(82)	-	(82)
Investment contracts liabilities without discretionary participation features held at fair value	-	(15,822)	-	(15,822)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,099)	(894)	(379)	(3,372)
Total financial instruments at fair value	108,039	75,447	4,194	187,680
Percentage of total	58%	40%	2%	100%

R Loans portfolio

Loans are accounted for at amortised cost net of impairment except for certain mortgage loans of the UK insurance operations which have been designated at fair value through profit and loss as this loan portfolio is managed and evaluated on a fair value basis. The amounts included in the statement of financial position are analysed as follows:

		2011 £m	2010 £m
Insurance operations			
	UKnote(i)	3,115	2,302
	USnote (ii)	4,110	4,201
	Asianote (iii)	1,233	1,340
Asset management operations			
	M&Gnote (iv)	1,256	1,418

Total	9,714	9,261
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## Notes

## (i) UK insurance operations

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

	2011 £m	2010 £m
SAIF and PAC WPSF		
Mortgage loans*	1,036	256
Policy loans	20	21
Other loans**	917	993
Total SAIF and PAC WPSF loans	1,973	1,270
Shareholder-backed		
Mortgage loans*	1,137	1,027
Other loans	5	5
Total shareholder-backed loans	1,142	1,032
Total UK insurance operations loans	3,115	2,302

\* The mortgage loans are collateralised by properties. By carrying value, 96 per cent of the £1,137 million held for shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 27 per cent.

\*\* Other loans held by the PAC WPSF are all commercial loans and comprise mainly syndicated loans.

## (ii) US insurance operations

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

	2011 £m	2010 £m
Mortgage loans+	3,559	3,641
Policy loans++	551	548
Other loans	-	12
Total US insurance operations loans	4,110	4,201

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

	2011 %	2010 %
Industrial	28	31
Multi-family residential	23	18
Office	19	19
Retail	19	21
Hotels	11	10
Other	-	1
	100	100

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.6 million (2010: £6.6 million). The portfolio has a current estimated average loan to value of 68 per cent (2010: 73 per cent) which provides significant cushion to withstand substantial declines in value.

At 31 December 2011, Jackson had mortgage loans with a carrying value of £87 million where the contractual terms of the agreements had been restructured. In addition to the regular impairment review afforded all loans in the portfolio, restructured loans are also reviewed for impairment. An impairment will be recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan.

††The policy loans are fully secured by individual life insurance policies or annuity policies. These loans are accounted for at amortised cost, less any impairment.

(iii) Asian insurance operations

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

	2011	2010
	£m	£m
Mortgage loans‡	31	25
Policy loans‡	572	528
Other loans‡‡	630	787
Total Asia insurance operations loans	1,233	1,340

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

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

(iv) M&G

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

	2011	2010
	£m	£m
Loans and receivables internal ratings:		
A+ to A-	129	213
BBB+ to BBB-	1,000	873
BB+ to BB-	89	219
B+ to B-	38	113
Total M&G loans	1,256	1,418

All loans in the portfolio are currently paying interest on scheduled coupon dates and no interest has been capitalised or deferred. All loans are in compliance with their covenants at the 31 December 2011. The loans in the portfolio generally have ratchet mechanisms included within the loan agreements at inception so that margins increase over time to encourage early repayment or have had margins increased to reflect revised commercial terms.

S Debt securities portfolio

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Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2011 provided in the notes below.

	2011 £m	2010 £m
Insurance operations		
UK note(i)	77,953	74,304
US note (ii)	27,022	26,366
Asia note (iii)	17,681	14,108
Asset management operationsnote (iv)	1,842	1,574
Total	124,498	116,352

(i) UK insurance operations

	PAC with-profits sub-fund				Other funds and subsidiaries			UK insurance operations	
	Scottish Amicable Insurance Fund	Excluding Prudential Annuities Limited	Prudential Annuities Limited	Total	Unit-linked assets	PRIL	Other annuity and long-term business	2011 Total	2010 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
S&P – AAA	578	4,292	585	4,877	699	3,302	472	9,928	18,833
S&P - AA+ to AA-	554	3,323	645	3,968	792	3,008	325	8,647	6,885
S&P - A+ to A-	1,104	10,257	1,318	11,575	1,444	6,525	826	21,474	21,508
S&P - BBB+ to BBB-	1,014	9,551	541	10,092	917	3,186	537	15,746	12,848
S&P – Other	311	2,461	62	2,523	142	174	25	3,175	3,403
	3,561	29,884	3,151	33,035	3,994	16,195	2,185	58,970	63,477
Moody's – Aaa	263	2,350	1,169	3,519	1,411	2,153	599	7,945	765
Moody's - Aa1 to Aa3	26	180	33	213	88	269	55	651	360
Moody's - A1 to A3	41	456	125	581	51	290	45	1,008	632
Moody's - Baa1 to Baa3	56	516	109	625	74	236	39	1,030	949
Moody's – Other	16	152	6	158	37	24	7	242	233
	402	3,654	1,442	5,096	1,661	2,972	745	10,876	2,939
Fitch	20	185	80	265	26	163	18	492	630
Other	366	3,973	960	4,933	434	1,776	106	7,615	7,258
Total UK debt securities	4,349	37,696	5,633	43,329	6,115	21,106	3,054	77,953	74,304

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £7,615 million total debt securities held at 31 December 2011 (2010: £7,258 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2011 £m	2010 £m
Internal ratings or unrated:		
AAA to A-	2,726	2,210
BBB to B-	3,773	3,861
Below B- or unrated	1,116	1,187
Total	7,615	7,258

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £1,882 million PRIL and other annuity and long-term business investments which are not externally rated, £9 million were internally rated AAA, £114 million AA, £590 million A, £887 million BBB, £92 million BB and £190 million were internally rated B+ and below or unrated.

During the year Standard and Poor's withdrew its ratings of debt securities issued by a number of Sovereigns. Where these are no longer available Moody's ratings have been used. This primarily impacts the UK and Asia insurance operations.

(ii) US insurance operations

US insurance operations held total debt securities with a carrying value of £27,022 million at 31 December 2011 (2010: £26,366 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

	2011 £m	2010 £m
Summary		
Corporate and government security and commercial loans:		
Government	2,163	2,440
Publicly traded and SEC Rule 144A securities	16,281	14,747
Non-SEC Rule 144A securities	3,198	3,044
Total	21,642	20,231
Residential mortgage-backed securities (RMBS)	2,591	2,784
Commercial mortgage-backed securities (CMBS)	2,169	2,375
Other debt securities	620	976
Total US debt securities	27,022	26,366

The following table summarises the securities detailed above by rating as at 31 December 2011 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of mortgage-backed securities (MBS) based on NAIC valuations:

	2011 £m	2010 £m
S&P – AAA	133	4,187
S&P - AA+ to AA-	4,476	801
S&P - A+ to A-	6,382	5,156
S&P - BBB+ to BBB-	8,446	8,202
S&P – Other	999	866



	20,436	19,212
Moody's – Aaa	62	34
Moody's - Aa1 to Aa3	15	32
Moody's - A1 to A3	29	36
Moody's - Baa1 to Baa3	67	73
Moody's – Other	17	135
	190	310
Implicit ratings of MBS based on NAIC valuations (see below)		
NAIC 1	2,577	3,083
NAIC 2	147	181
NAIC 3-6	368	232
	3,092	3,496
Fitch	184	176
Other *	3,120	3,172
Total US debt securities	27,022	26,366

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

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

\*The amounts within Other which are not rated by S&P, Moody or Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2011	2010
	£m	£m
NAIC 1	1,258	1,193
NAIC 2	1,792	1,849
NAIC 3-6	70	130
	3,120	3,172

(iii) Asia insurance operations

	With-profits business £m	Unit-linked assets £m	Other £m	2011 Total £m	2010 Total £m
S&P - AAA	1,259	38	126	1,423	2,934
S&P - AA+ to AA-	2,161	83	1,599	3,843	2,138
S&P - A+ to A-	1,560	564	931	3,055	2,843
S&P - BBB+ to BBB-	1,032	104	315	1,451	913
S&P - Other	786	707	644	2,137	1,773
	6,798	1,496	3,615	11,909	10,601
Moody's - Aaa	818	222	449	1,489	65
Moody's - Aa1 to Aa3	47	61	20	128	115

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Moody's - A1 to A3	191	17	96	304	130
Moody's - Baa1 to Baa3	109	4	18	131	95
Moody's - Other	34	9	16	59	49
	1,199	313	599	2,111	454
Fitch	189	60	102	351	49
Other	1,368	877	1,065	3,310	3,004
Total Asia debt securities	9,554	2,746	5,381	17,681	14,108

The following table analyses debt securities of 'Other business' which are not externally rated:

	2011	2010
	Total	Total
	£m	£m
Government bonds	244	350
Corporate bonds rated as investment grade by local external ratings agencies	776	666
Structured deposits issued by banks which are rated, but specific deposits are not	-	5
Other	45	22
	1,065	1,043

(iv) Asset Management Operations

Of the total debt securities at 31 December 2011 of £1,842 million, the following amounts were held by M&G.

	2011	2010
	£m	£m
M&G		
AAA to A- by Standard and Poor's or Aaa rated by Moody's	1,547	1,468
Other	287	92
Total M&G debt securities	1,834	1,560

(v) Group exposure to holdings in asset-backed securities

The Group's exposure to holdings in asset-backed securities, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), CDO funds and other asset-backed securities (ABS), at 31 December 2011 is as follows:

	2011	2010
	£m	£m
Shareholder-backed operations (excluding assets held in unit-linked funds):		
UK insurance operations note (a)	1,358	1,181
US insurance operations note (b)	5,380	6,135
Asian insurance operations note (c)	176	113
Other operations note (d)note (iv)	594	437
	7,508	7,866
With-profits operations:		
UK insurance operations note (a)	5,351	5,237
Asian insurance operations note (c)	454	435
	5,805	5,672
Total	13,313	13,538

## Notes

## (a) UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 31 December 2011 comprises:

	2011	2010
	£m	£m
Shareholder-backed business (2011: 38% AAA, 18% AA)(i)	1,358	1,181
With-profits operations (2011: 58% AAA, 9% AA)(ii)	5,351	5,237
Total	6,709	6,418

(i) All of the exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL.

(ii) Exposure of the with-profits operations relates to exposure to:

	2011	2010
	£m	£m
UK market	4,037	3,685
US market	1,314	1,552
	5,351	5,237

## (b) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2011 comprises:

	2011	2010
	£m	£m
RMBS Sub-prime (2011: 20% AAA, 4% AA)	207	224
Alt-A (2011: 12% AAA, 4% AA)	310	415
Prime including agency (2011: 3% AAA, 76% AA)	2,074	2,145
CMBS (2011: 35% AAA, 12% AA)	2,169	2,375
CDO funds (2011: 16% AAA, 0% AA)*, including £nil million exposure to sub-prime	44	162
Other ABS (2011: 23% AAA, 17% AA), including £6.6 million exposure to sub-prime	576	814
Total	5,380	6,135

\* Including the Group's economic interest in Piedmont and other consolidated CDO funds.

## (c) Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations.

The £454 million (2010: £435 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	2011	2010
	£m	£m
CMBS	149	251
CDO funds and ABS	305	184
Total	454	435

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The £454 million (2010: £435 million) includes £398 million (2010: £341 million) held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and include an amount not owned by the Group with a corresponding liability of £20 million (2010: £7 million) on the statement of financial position for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £454 million, 75 per cent (2010: £435 million, 43 per cent) are investment graded by Standard and Poor's.

### (d) Other operations

Other operations' exposure to asset-backed securities at 31 December 2010 is held by Prudential Capital and comprises:

	2011 £m	2010 £m
RMBS: Prime (2011: 91% AAA, 9% AA)	340	197
CMBS (2011: 27% AAA, 16% AA)	146	184
CDO funds and other ABS - all without sub-prime exposure (2011: 98% AAA)	108	56
Total	594	437

### (vi) Group sovereign debt exposure

Sovereign debt represented 16 per cent or £9.2 billion of the debt portfolio backing shareholder business at 31 December 2011. 43 per cent of this was rated AAA and 94 per cent investment grade. Of the Group's holdings in Continental Europe of £690 million, 87 per cent was AAA rated. Shareholder exposure to the eurozone sovereigns of Portugal, Italy, Ireland, Greece and Spain (PIIGS) is £44 million. The Group does not have any sovereign debt exposure to Greece, Portugal, Ireland or France.

The exposure of the Group's shareholder and with-profits funds to sovereign debt (including credit default swaps that are referenced to sovereign debt) at 31 December 2011 is as follows.

	Shareholder sovereign debt £m	With-profits sovereign debt £m
Continental Europe		
Italy	43	52
Spain	1	33
	44	85
Germany	598	602
Other Europe (principally Isle of Man and Belgium)	48	62
	690	749
United Kingdom	3,254	2,801
United States	2,448	2,615
Other, predominately Asia	2,850	332
Total	9,242	6,497

### Exposure to bank debt securities

The Group held the following direct exposures to banks' debt securities of shareholder-backed business at 31 December 2011.

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Bank debt securities - shareholder-backed business

	Senior debt			Subordinated debt			Total
	Covered	Senior	Total senior debt	Tier 2	Tier 1	Total subordinated debt	
	£m	£m	£m	£m	£m	£m	£m
Portugal	-	24	24	-	-	-	24
Ireland	-	13	13	-	-	-	13
Italy	-	11	11	56	14	70	81
Greece	-	-	-	-	-	-	-
Spain	107	11	118	90	2	92	210
	107	59	166	146	16	162	328
Austria	-	-	-	9	-	9	9
Belgium	-	-	-	-	-	-	-
France	2	34	36	78	35	113	149
Germany	-	28	28	1	-	1	29
Luxembourg	-	-	-	-	-	-	-
Netherlands	-	7	7	81	64	145	152
United Kingdom	228	145	373	615	95	710	1,083
Total Europe	337	273	610	930	210	1,140	1,750
United States	-	1,362	1,362	352	2	354	1,716
Other, predominantly							
Asia	-	246	246	562	33	595	841
Total	337	1,881	2,218	1,844	245	2,089	4,307

In addition to the exposures held by the shareholder-backed business, the Group held the following banks' securities at 31 December 2011 within its with-profits funds.

Bank debt securities - participating funds

	Senior debt			Subordinated debt			Total
	Covered	Senior	Total senior debt	Tier 2	Tier 1	Total subordinated debt	
	£m	£m	£m	£m	£m	£m	£m
Portugal	-	7	7	-	-	-	7
Ireland	-	-	-	-	-	-	-
Italy	-	45	45	49	2	51	96
Greece	5	-	5	-	-	-	5
Spain	137	-	137	1	-	1	138
	142	52	194	50	2	52	246
Austria	-	-	-	-	-	-	-
Belgium	-	-	-	-	-	-	-
France	-	80	80	47	17	64	144
Germany	-	7	7	-	-	-	7
Luxembourg	-	7	7	-	-	-	7
Netherlands	-	80	80	14	28	42	122
United Kingdom	319	385	704	772	74	846	1,550

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Total Europe	461	611	1,072	883	121	1,004	2,076
United States	-	1,378	1,378	396	278	674	2,052
Other,							
predominantly	1	384	385	341	20	361	746
Total	462	2,373	2,835	1,620	419	2,039	4,874

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

i Valuation basis

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 7 requires classification of the fair values applied by the Group into a three level hierarchy. At 31 December 2011, 0.1 per cent of Jackson's debt securities were classified as level 3 (31 December 2010: 0.3 per cent) comprising of fair values where there are significant inputs which are not based on observable market data.

ii Accounting presentation of gains and losses

With the exception of debt securities of US insurance operations classified as 'available-for-sale' under IAS 39, unrealised value movements on the Group's investments are booked within the income statement. For with-profits operations, such value movements are reflected in changes to asset share liabilities to policyholders or the liability for unallocated surplus. For shareholder-backed operations, the unrealised value movements form part of the total return for the year booked in the profit before tax attributable to shareholders. Separately, as noted elsewhere and in note C in this report, and as applied previously, the Group provides an analysis of this profit distinguishing operating profit based on longer-term investment returns and short-term fluctuations in investment returns.

However, for debt securities classified as 'available-for-sale', unless impaired, fair value movements are recognised in other comprehensive income. Realised gains and losses, including impairments, recorded in the income statement are as shown in note F of this report. This classification is applied for most of the debt securities of the Group's US insurance operations.

iii 2011 movements in unrealised gains and losses

In 2011 there was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £1,210 million to a net unrealised gain of £2,057 million. The gross unrealised gain in the statement of financial position increased from £1,580 million at 31 December 2010 to £2,303 million at 31 December 2011, while the gross unrealised loss decreased from £370 million at 31 December 2010 to £246 million at 31 December 2011.

These features are included in the table shown below of the movements in the values of available-for-sale securities.

Available for sale securities

2011	Changes in Unrealised appreciation** Reflected as part of movement in consolidated statement of comprehensive income	Foreign exchange translation	2010
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	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	2,455			4,372
Unrealised (loss) / gainnotes (iv)(a) and (b)	(246)	122	2	(370)
Fair value (as included in statement of financial position)	2,209			4,002
Assets fair valued at or above book value				
Book value*	22,504			20,743
Unrealised gain /(loss)	2,303	689	34	1,580
Fair value (as included in statement of financial position)	24,807			22,323
Total				
Book value*	24,959			25,115
Net unrealised gain/(loss)	2,057	811	36	1,210
Fair value (as included in statement of financial position)***	27,016			26,325

\* Book value represents cost/amortised cost of the debt securities.

\*\* Translated at the average rate of \$1.6037: £1.

\*\*\*Debt securities for US operations included in the statement of financial position at 31 December 2011 and as referred to in note S, comprise:

	2011 £m	2010 £m
Available-for-sale	27,016	26,325
Consolidated investment funds classified as fair value through profit and loss	6	41
	27,022	26,366

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

The following tables show some key attributes of those securities that are in an unrealised loss position at 31 December 2011.

(a) Fair value of available-for-sale securities as a percentage of book value

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

	2011		2010	
	Fair value	Unrealised loss	Fair value	Unrealised loss
	£m	£m	£m	£m
Between 90% and 100%	1,829	(60)	3,390	(102)
Between 80% and 90%	172	(28)	273	(44)
Below 80% note(d)	208	(158)	339	(224)
Total	2,209	(246)	4,002	(370)

Included within the table above are amounts relating to sub-prime and Alt-A securities of:

	2011		2010	
	Fair value	Unrealised loss	Fair value	Unrealised loss
	£m	£m	£m	£m
Between 90% and 100%	142	(7)	98	(6)
Between 80% and 90%	58	(11)	55	(9)
Below 80% note(d)	69	(35)	56	(25)
Total	269	(53)	209	(40)

(b) Unrealised losses by maturity of available-for-sale securities

	2011	2010
	£m	£m
Less than 1 year	-	-
1 year to 5 years	(7)	(6)
5 years to 10 years	(28)	(47)
More than 10 years	(28)	(49)
Mortgage-backed and other debt securities	(183)	(268)
Total*	(246)	(370)

\*These relate to assets with a fair market value and book value of £2,209 million (2010: £4,002 million) and £2,455 million (2010: £4,372 million) respectively.

(c) Age analysis of unrealised losses for the years indicated for available-for-sale securities

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

	2011			2010		
	Non investment grade	Investment grade	Total	Non investment grade	Investment grade	Total
	£m	£m	£m	£m	£m	£m
Less than 6 months	(11)	(31)	(42)	(3)	(67)	(70)
6 months to 1 year	(7)	(8)	(15)	(2)	-	(2)
1 year to 2 years	(5)	(1)	(6)	(13)	(20)	(33)
2 years to 3 years	(7)	(10)	(17)	(27)	(55)	(82)
More than 3 years	(61)	(105)	(166)	(58)	(125)	(183)
Total	(91)	(155)	(246)	(103)	(267)	(370)

At 31 December 2011, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £53 million (2010: £40 million). Of these losses £10 million (2010: £1 million) relate to securities that have been in an unrealised loss position for less than one year and £43 million (2010: £39 million) to securities that have been in an unrealised loss position for more than one year.

(d) Available-for-sale securities whose fair value were below 80 per cent of the book value



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As shown in the table (a) above, £158 million of the £246 million of gross unrealised losses at 31 December 2011 (2010: £224 million of the £370 million of gross unrealised losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £158 million (2010: £224 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	2011		2010	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Category analysis	£m	£m	£m	£m
Residential mortgage-backed securities				
Prime (including agency)	38	(16)	88	(39)
Alt - A	12	(3)	15	(4)
Sub-prime	58	(32)	41	(20)
	108	(51)	144	(63)
Commercial mortgage-backed securities.	6	(29)	8	(29)
Other asset-backed securities	65	(58)	123	(105)
Total structured securities	179	(138)	275	(197)
Corporates	29	(20)	64	(27)
Total	208	(158)	339	(224)

Age analysis of fair value being below 80 per cent for the period indicated:

	2011		2010	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Age analysis	£m	£m	£m	£m
Less than 3 months	15	(5)	-	(1)
3 months to 6 months	45	(15)	-	-
More than 6 months				