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

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

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

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

D: Profit before tax – asset management operations

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

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

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

Notes

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

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

Notes on the IFRS basis results continued

D: Profit before tax – asset management operations continued

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

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

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

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

E: Insurance assets and liabilities – key results features

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

i Asia insurance operations – non-recurrent items

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

ii US insurance operations – amortisation of deferred acquisition costs

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

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

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

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

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

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

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

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