

AMERICAN EQUITY INVESTMENT LIFE HOLDING CO  
Form SC 13G/A  
February 06, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 13G**

**Under the Securities Exchange Act of 1934**  
**(Amendment No. 1)\***

AMERICAN EQUITY INVT LIFE HL

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(Name of Issuer)

Common Stock

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(Title of Class of Securities)

025676206

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(CUSIP Number)

December 31, 2007

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

☒ Rule 13d-1(b)

☐ Rule 13d-1(c)

☐ Rule 13d-1(d)

\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ( Act ) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 025676206

1. Names of Reporting Persons.

I.R.S. Identification Nos. of above persons (entities only).

Dimensional Fund Advisors LP (Tax ID: 30-0447847)

2. Check the Appropriate Box if a Member of a Group (See Instructions)

(a) ☐

(b) ☒

3. SEC Use Only

4. Citizenship or Place of Organization

Delaware Limited Partnership

5. Sole Voting Power

Number of

Shares

Beneficially 4816578 \*\*see Note 1\*\*

6. Shared Voting Power

Owned by

Each

Reporting

0

Person

7. Sole Dispositive Power

With

4816578 \*\*see Note 1\*\*

8. Shared Dispositive Power

0

9. Aggregate Amount Beneficially Owned by Each Reporting Person

4816578 \*\*see Note 1\*\*

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

N/A

11. Percent of Class Represented by Amount in Row (9)

8.47%

12. Type of Reporting Person (See Instructions)

IA

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Item 1.

- (a) Name of Issuer

AMERICAN EQUITY INVT LIFE HL

- (b) Address of Issuer's Principal Executive Offices

5000 Westown Pkwy Ste 440, West Des Moines, IA 50266-5921

Item 2.

- (a) Name of Person Filing

Dimensional Fund Advisors LP

- (b) Address of Principal Business Office or, if none, Residence

1299 Ocean Avenue, Santa Monica, CA 90401

- (c) Citizenship

Delaware Limited Partnership

- (d) Title of Class of Securities

Common Stock

- (e) CUSIP Number

025676206

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) ☐ Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
- (b) ☐ Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) ☐ Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) ☐ Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).
- (e) ☒ An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);
- (f) ☐ An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
- (g) ☐ A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
- (h) ☐ A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i) ☐ A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) ☐ Group, in accordance with §240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

4816578 \*\*see Note 1\*\*

(b) Percent of class:

8.47%

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(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote:

4816578 \*\*see Note 1\*\*

(ii) Shared power to vote or to direct the vote:

0

(iii) Sole power to dispose or to direct the disposition of:

4816578 \*\*see Note 1\*\*

(iv) Shared power to dispose or to direct the disposition of:

0

**\*\* Note 1 \*\*** Dimensional Fund Advisors LP (formerly, Dimensional Fund Advisors Inc.) ( Dimensional ), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the securities of the Issuer described in this schedule that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Issuer held by the Funds. However, all securities reported in this schedule are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, the filing of this Schedule 13G shall not be construed as an admission that the reporting person or any of its affiliates is the beneficial owner of any securities covered by this Schedule 13G for any other purposes than Section 13(d) of the Securities Exchange Act of 1934.

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

The Funds described in Note 1 above have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the securities held in their respective accounts. To the knowledge of Dimensional, the interest of any one such Fund does not exceed 5% of the class of securities. Dimensional disclaims beneficial ownership of all such securities.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.

N/A

Item 8. Identification and Classification of Members of the Group

N/A

Item 9. Notice of Dissolution of Group

N/A

Item 10. Certification

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By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.



**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

DIMENSIONAL FUND ADVISORS LP

February 6, 2008

Date

By: Dimensional Holdings Inc., General Partner

/s/ Christopher Crossan

Signature

Global Chief Compliance Officer

Title

-LEFT: 0pt; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="right">22,853

45,157  
126,544  
118,180  
125,530

Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds) (note Z and (vi))

-  
8,899  
1,912  
10,811

-  
-  
-  
10,811  
10,014  
10,187

Total

9,406  
68,731  
14,061  
82,792  
  
22,304  
22,853  
45,157  
137,355

	128,194
	135,717
Operational borrowings attributable to shareholder financed operations	
	-
	-
	-
	-
	-
	102
	102
	102
	159
	162
Borrowings attributable to with-profits funds	
	124
	1,316
	-
	1,316
	-
	-
	-
	1,440
	1,313
	1,522
Deferred tax liabilities	
	61
	894
	211
	1,105
	-
	460
	460
	1,626
	1,283
	1,738
Other non-insurance liabilities	
	493
	3,931
	608
	4,539
	615
	2,594
	3,209
	8,241
	8,417
	8,341
Total liabilities	

	10,084
	74,872
	14,880
	89,752
	22,919
	26,009
	48,928
	148,764
	139,366
	147,480
Total equity and liabilities	
	10,084
	74,910
	14,880
	89,790
	22,919
	28,351
	51,270
	151,144
	141,335
	149,663

## Notes

(i) 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 3.5 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) 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.

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

(v) Other investments comprise:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Derivative assets*	841	1,370	926
Partnerships in investment pools and other**	3,205	2,953	3,072
	4,046	4,323	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 £909 million (30 June 2010: £868 million; 31 December 2010: £792 million), which are also included in the statement of financial position, the overall derivative position was a net liability of £68 million (30 June 2010: net asset of £502 million; 31 December 2010: net asset of £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.

(vi) 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

	30 Jun 2011		30 Jun 2010	31 Dec 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	-	3,639	3,639	2,950
Total	-	3,639	3,639	2,950
Deferred tax assets	-	1,346	1,346	1,828
Other non-investment and non-cash assets	-	1,168	1,168	1,409
Investments of long-term business and other operations:				
Investment properties	-	25	25	27
Financial investments:				
Loans(note T)	-	4,062	4,062	4,537
Equity securities and portfolio holdings in unit trusts(note (iv))	36,005	258	36,263	24,629
Debt securities(note U and V)	-	25,286	25,286	27,371
Other investments(note (ii))	-	1,352	1,352	1,684
Deposits	-	182	182	359

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Total investments	36,005	31,165	67,170	58,607	63,505
Properties held for sale	-	3	3	3	3
Cash and cash equivalents	-	214	214	153	232
Total assets	36,005	37,535	73,540	64,950	69,915
Equity and liabilities					
Equity					
Shareholders' equity (note (iii))	-	3,764	3,764	3,905	3,815
Total equity	-	3,764	3,764	3,905	3,815
Liabilities					
Policyholder:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4) (note Z)	36,005	28,702	64,707	55,253	60,523
Total	36,005	28,702	64,707	55,253	60,523
Core structural borrowings of shareholder-financed operations	-	155	155	166	159
Operational borrowings attributable to shareholder-financed operations	-	34	34	171	90
Deferred tax liabilities	-	1,805	1,805	2,254	1,776
Other non-insurance liabilities	-	3,075	3,075	3,201	3,552
Total liabilities	36,005	33,771	69,776	61,045	66,100
Total equity and liabilities	36,005	37,535	73,540	64,950	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:

	30 Jun 2011	30 Jun 2010	31 Dec 2010
	£m	£m	£m
Derivative assets*	749	1,162	645
Partnerships in investment pools and other**	603	522	554
	1,352	1,684	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 £718 million (30 June 2010: £618 million; 31 December 2010: £799 million), which is also included in the statement of financial position, the derivative position for US operations is a net asset of £31 million (30 June 2010: net asset of £544 million; 31 December 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 other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(iii) Changes in shareholders' equity	30 Jun 2011	30 Jun* 2010	31 Dec 2010
	£m	£m	£m
Operating profits based on longer-term investment returns (note C)	368	327	833

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Short-term fluctuations in investment returns (note F)	27	3	(378)
Profit before shareholder tax	395	330	455
Tax (note L)	(119)	(94)	(117)
Profit for the period	276	236	338
	30 Jun 2011	30 Jun 2010	31 Dec 2010
	£m	£m	£m
Profit for the period (as above)	276	236	338
Items recognised in other comprehensive income:			
Exchange movements	(92)	252	85
Unrealised valuation movements on securities classified as available-for sale:			
Unrealised holding gains arising during the period	287	1,123	1,170
Deduct net (gains) / add back net losses included in income statement	(50)	21	51
Total unrealised valuation movements	237	1,144	1,221
Related change in amortisation of deferred income and acquisition costs (note R)	(97)	(510)	(496)
Related tax	(49)	(215)	(247)
Total other comprehensive (loss) income	(1)	671	563
Total comprehensive income for the period	275	907	901
Dividends, interest payments to central companies and other movements	(326)	(13)	(97)
Net (decrease) increase in equity	(51)	894	804
Shareholders' equity at beginning of period	3,815	3,011	3,011
Shareholders' equity at end of period	3,764	3,905	3,815

\*In the second half of 2010 the Company amended the presentation of IFRS operating profit for its US operations to remove the net equity hedge accounting effect (incorporating related amortisation of deferred acquisition costs) and include it in short-term fluctuations in investment returns. Accordingly, the half year 2010 operating profit has been amended to remove the positive £123 million effect. Note C explains the effect of this change.

(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

	30 Jun 2011				30 Jun 2010	31 Dec 2010
	With-profits business (note (i)) £m	Unit-linked assets and liabilities £m	Other £m	Total £m	Total £m	Total £m
Assets						
Intangible assets attributable to shareholders:						
Goodwill	-	-	239	239	235	236
Deferred acquisition costs and other intangible assets	-	-	1,008	1,008	942	939

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Total	-	-	1,247	1,247	1,177	1,175
Intangible assets attributable to with-profits funds:						
Deferred acquisition costs and other intangible assets	82	-	-	82	102	97
Deferred tax assets	-	-	94	94	96	98
Other non-investment and non-cash assets	273	109	542	924	992	811
Investments of long-term business and other operations:						
Investment properties	-	-	10	10	11	9
Investments accounted for using the equity method	-	-	2	2	5	2
Financial investments:						
Loans (note T)	835	-	448	1,283	1,383	1,340
Equity securities and portfolio holdings in unit trusts	3,863	9,847	449	14,159	12,323	14,464
Debt securities (note U)	7,469	3,013	4,875	15,357	12,425	14,108
Other investments	353	22	129	504	427	382
Deposits	-	493	334	827	952	638
Total investments	12,520	13,375	6,247	32,142	27,526	30,943
Cash and cash equivalents	718	454	903	2,075	1,010	1,601
Total assets	13,593	13,938	9,033	36,564	30,903	34,725
Equity and liabilities						
Equity						
Shareholders' equity	-	-	2,269	2,269	1,992	2,149
Non-controlling interests	-	-	5	5	2	5
Total equity	-	-	2,274	2,274	1,994	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)(note Z)	11,469	13,222	5,490	30,181	25,480	28,674
Unallocated surplus of with-profits funds (note Z)	61	-	-	61	52	66
Total	11,530	13,222	5,490	30,242	25,532	28,740
Operational borrowings attributable to shareholders-financed operations	-	-	139	139	195	189
Deferred tax liabilities	368	27	130	525	425	495
Other non-insurance liabilities	1,695	689	1,000	3,384	2,757	3,147
Total liabilities	13,593	13,938	6,759	34,290	28,909	32,571
Total equity and liabilities	13,593	13,938	9,033	36,564	30,903	34,725

Notes

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

(iv) Asset management operations

	M&G (note (i)) £m	US £m	Asia £m	Total 30 Jun 2011 £m	Total 30 Jun 2010 £m	Total 31 Dec 2010 £m
Assets						
Intangible assets:						
Goodwill	1,153	16	61	1,230	1,230	1,230
Deferred acquisition costs	9	-	-	9	8	9
Total	1,162	16	61	1,239	1,238	1,239
Other non-investment and non-cash assets	858	177	138	1,173	1,017	1,122
Financial investments:						
Loans(note T)	1,271	-	-	1,271	1,453	1,418
Equity securities and portfolio holdings in unit trusts	134	-	11	145	155	151
Debt securities(note U)	1,739	-	13	1,752	1,466	1,574
Other investments(note (iii))	43	1	5	49	195	59
Deposits	42	8	40	90	54	80
Total financial investments	3,229	9	69	3,307	3,323	3,282
Cash and cash equivalents	2,014	39	126	2,179	1,076	1,436
Total assets	7,263	241	394	7,898	6,654	7,079
Equity and liabilities						
Equity						
Shareholders' equity	1,463	124	273	1,860	1,711	1,787
Non-controlling interests	3	-	-	3	3	4
Total equity	1,466	124	273	1,863	1,714	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))	2,633	-	-	2,633	2,564	2,560
Net asset value attributable to external holders of consolidated unit trusts and similar funds (note (iii))	516	-	-	516	398	458
Other non-insurance liabilities(note (iv))	2,398	117	121	2,636	1,978	2,020
Total liabilities	5,797	117	121	6,035	4,940	5,288
Total equity and liabilities	7,263	241	394	7,898	6,654	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:

30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
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Commercial paper	2,384	2,312	2,311
Medium-term notes	249	252	249
Total intra-group debt represented by operational borrowings at Group level	2,633	2,564	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:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Cash and cash equivalents	357	247	304
Other investments	193	164	167
Other net assets and liabilities	(34)	(13)	(13)
Net asset value attributable to external unit holders	(516)	(398)	(458)
Shareholders' equity	-	-	-

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

## Q Goodwill attributable to shareholders

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Cost			
At beginning of period	1,586	1,430	1,430
Acquisition of UOB Life Assurance Limited in Singapore*	-	145	141
Exchange differences	3	10	15
At end of period	1,589	1,585	1,586
Aggregate impairment	(120)	(120)	(120)
Net book amount at end of period	1,469	1,465	1,466

\* Goodwill was finalised in the second half of 2010.

## R 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 regime, these costs, which vary with, and are primarily related to, the production of new business, are capitalised and amortised against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value of the deferred acquisition cost asset 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:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Deferred acquisition costs (DAC) relating to insurance and investment management contracts	4,504	3,847	4,426
Present value of acquired in-force business and distribution rights	269	181	183
	4,773	4,028	4,609

#### Deferred acquisition costs

	UK £m	US(i) £m	Asia £m	Asset management £m	Other intangibles £m	Total 30 Jun 2011 £m	Total 30 Jun 2010 £m	Total 31 Dec 2010 £m
Balance at beginning of period	116	3,543	758	9	183	4,609	4,049	4,049
Additions/ reclassifications	9	485	121	1	92	708	605	1,135
Acquisition of UOB Life Assurance Ltd in 2010						-	-	12
Amortisation to the income statement:								
Operating profit	(10)	(293)	(132)	(1)	(7)	(443)	(393)	(579)
Amortisation related to short-term fluctuations in investment returns	-	88	-	-	-	88	8	358
	(10)	(205)	(132)	(1)	(7)	(355)	(385)	(221)
Exchange differences	-	(87)	(6)	-	1	(92)	269	137
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	-	(97)	-	-	-	(97)	(510)	(496)
Dilution of holding in PruHealth in 2010	-	-	-	-	-	-	-	(7)
Balance at end of period	115	3,639	741	9	269	4,773	4,028	4,609

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

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Variable annuity business	3,092	2,384	2,834
Other business	1,152	1,118	1,229
Cumulative shadow DAC	(605)	(552)	(520)

Total DAC for US operations	3,639	2,950	3,543
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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 equity return which, for Jackson, is 8.4 per cent after deduction of net external fund management fees. This is applied to the period end level of separate account assets after application of a mean reversion technique that removes a portion of the effect of levels of short-term variability in current market returns.

Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current 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 gross of asset 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.

#### Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises

a core amount that reflects a relatively stable proportion of underlying profits; and

i)

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

ii)

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

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

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

#### Half year 2011

In half year 2011, the DAC amortisation charge included in operating profit includes £82 million of accelerated amortisation. This amount reflects the combined effect of

i) market returns in the period being lower than those assumed for the period; and

ii) the reduction in the previously assumed future rates of return for the upcoming 5 years from 15 per cent, to a level nearer the middle of the corridor (of 0 per cent 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 2008 negative returns. Setting aside other complications and the growth in the book, the 2011 accelerated amortisation can be broadly equated as 'paying back' the benefit enjoyed in 2008.

#### Full year 2011

Consistent with the features noted for the half year 2011 level of accelerated amortisation, the charge for full year 2011 will be sensitive to the combined effect of

(i) the separate account performance in the period as it compares with the assumed level for the second half of the year; and

(ii) the consequential effect of adjustments to the projected rates of return for the future 5 years under the mean reversion methodology as they are updated from those applying at 30 June 2011.

On the assumption that market returns for 2011 are within the range of negative 15 per cent to positive 15 per cent, the estimated DAC acceleration for full year 2011 is estimated to be £240 million to £150 million.

#### S

#### 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 30 June 2011 is summarised below:

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	30 June 2011			30 June 2010			31 December 2010		
	Cost / Amortised			Cost / Amortised			Cost / Amortised		
	At fair value £m	(note (ii)) cost £m	Total £m	At fair value £m	(note (ii)) cost £m	Total £m	At fair value £m	(note (ii)) cost £m	Total £m
Intangible assets attributable to shareholders:									
Goodwill (note Q)	-	1,469	1,469	-	1,465	1,465	-	1,466	1,466
Deferred acquisition costs and other intangible assets (note R)	-	4,773	4,773	-	4,028	4,028	-	4,609	4,609
Total	-	6,242	6,242	-	5,493	5,493	-	6,075	6,075
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	-	169	169	-	124	124	-	166	166
Deferred acquisition costs and other intangible assets	-	93	93	-	110	110	-	110	110
Total	-	262	262	-	234	234	-	276	276
Total	-	6,504	6,504	-	5,727	5,727	-	6,351	6,351
Other non-investment and non-cash assets:									
Property, plant and equipment	-	761	761	-	382	382	-	612	612
Reinsurers' share of insurance contract liabilities	-	1,334	1,334	-	1,369	1,369	-	1,344	1,344
Deferred tax assets (note L)	-	2,120	2,120	-	2,691	2,691	-	2,188	2,188
Current tax recoverable	-	384	384	-	575	575	-	555	555
Accrued investment income	-	2,460	2,460	-	2,559	2,559	-	2,668	2,668
Other debtors	-	1,638	1,638	-	1,467	1,467	-	903	903
Total	-	8,697	8,697	-	9,043	9,043	-	8,270	8,270

Investments of long-term  
business and other  
operations:(note (iv))

Investment properties	10,965	-	10,965	11,360	-	11,360	11,247	-	11,247
Investments accounted for using the equity method	-	71	71	-	9	9	-	71	71
Loans (notes (iii) and T)	245	8,772	9,017	251	9,336	9,587	227	9,034	9,261
Equity securities and portfolio holdings in unit trusts(note (iii))	91,037	-	91,037	71,775	-	71,775	86,635	-	86,635
Debt securities (notes (iii) and U)	117,213	-	117,213	113,334	-	113,334	116,352	-	116,352
Other investments (note (iii))	6,121	-	6,121	6,768	-	6,768	5,779	-	5,779
Deposits (note (i))	-	10,858	10,858	-	9,766	9,766	-	9,952	9,952
Total	225,581	19,701	245,282	203,488	19,111	222,599	220,240	19,057	239,297
Properties held for sale	394	-	394	3	-	3	257	-	257
Cash and cash equivalents (note (i))	-	8,589	8,589	-	6,040	6,040	-	6,631	6,631
Total assets	225,975	43,491	269,466	203,491	39,921	243,412	220,497	40,309	260,806
Percentage of Group total assets	84%	16%	100%	84%	16%	100%	85%	15%	100%

## Notes

- (i) The Group has classified deposits and cash and cash equivalents as loans and receivables under IAS 39. These are carried at amortised cost in the statement of financial position. There is no difference between their carrying values and fair values. Including these amounts as being at their fair values, the percentage of the Group's total assets held on the statement of financial position which were at fair value at 30 June 2011 was 91 per cent (30 June 2010: 90 per cent; 31 December 2010: 91 per cent).
- (ii) 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.
- (iii) These assets comprise financial instruments requiring fair value valuation under IAS 39 with a value of £214.6 billion (30 June 2010: £192.1 billion; 31 December 2010: £209.0 billion).
- (iv) Realised gains and losses on the Group's investments for half year 2011 amounted to a net gain of £2.5 billion (half year 2010: £0.1 billion; full year £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 is consistent with that set out in the full year 2010 Annual Report and is summarised below.

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 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. 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.

Of the total level 2 debt securities of £ 89,051 million at 30 June 2011 (30 June 2010: £87,440 million; 31 December 2010: £89,948 million), £ 6,644 million are valued internally (30 June 2010: £6,862 million; 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 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).

Of the £ 699 million level 3 fair valued financial investments, net of derivative liabilities at 30 June 2011 (30 June 2010: £892 million; 31 December 2010: £866 million), which support non-linked shareholder-backed business (representing 1.2 per cent of the total fair valued financial investments net of derivative liabilities backing this business (30 June 2010: 1.6 per cent; 31 December 2010: 1.6 per cent)), £ 745 million of net assets are externally valued and £ (46) million of net liabilities are internally valued (30 June 2010: net assets of £817 million and £75 million; 31 December 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 30 June 2011 (30 June 2010: 0.1 per cent; 31 December 2010: 0.2 per cent), are inherently more subjective than external valuations.

#### Transfers between levels

During half year 2011, transfers from level 1 to 2 within the Group's portfolio amounted to £64 million. Transfers from level 2 to level 3 amounted to £38 million and transfers from level 3 to level 2 amounted to £105 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

	30 June 2011			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	28,379	1,269	361	30,009
Debt securities	12,673	40,755	721	54,149
Other investments (including derivative assets)	133	1,228	2,688	4,049
Derivative liabilities	(40)	(895)	(47)	(982)
Total financial investments, net of derivative liabilities	41,145	42,357	3,723	87,225



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Percentage of total	47%	49%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	60,132	13	-	60,145
Debt securities	4,148	4,577	1	8,726
Other investments (including derivative assets)	16	96	-	112
Derivative liabilities	-	-	-	-
Total financial investments, net of derivative liabilities	64,296	4,686	1	68,983
Percentage of total	93%	7%	0%	100%
Non-linked shareholder-backed				
Loans	-	245	-	245
Equity securities and portfolio holdings in unit trusts	755	23	105	883
Debt securities	10,385	43,719	234	54,338
Other investments (including derivative assets)	52	1,298	610	1,960
Derivative liabilities	(36)	(1,117)	(250)	(1,403)
Total financial investments, net of derivative liabilities	11,156	44,168	699	56,023
Percentage of total	20%	79%	1%	100%

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

Group total				
Loans	-	245	-	245
Equity securities and portfolio holdings in unit trusts	89,266	1,305	466	91,037
Debt securities	27,206	89,051	956	117,213
Other investments (including derivative assets)	201	2,622	3,298	6,121
Derivative liabilities	(76)	(2,012)	(297)	(2,385)
Total financial investments, net of derivative liabilities	116,597	91,211	4,423	212,231
Borrowings attributable to the with-profits fund held at fair value	-	(71)	-	(71)
Investment contracts liabilities without discretionary participation features held at fair value	-	(14,708)	-	(14,708)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,773)	(980)	(450)	(3,203)
Total	114,824	75,452	3,973	194,249
Percentage of total	59%	39%	2%	100%

	30 June 2010			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m

Analysis of financial investments, net of derivative liabilities by business type

With-profits				
Equity securities and portfolio holdings in unit trusts	25,655	988	476	27,119
Debt securities	10,975	39,707	1,206	51,888
Other investments (including derivative assets)	64	1,679	2,410	4,153
Derivative liabilities	(136)	(589)	(27)	(752)
Total financial investments, net of derivative liabilities	36,558	41,785	4,065	82,408
Percentage of total	44%	51%	5%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	43,810	65	-	43,875
Debt securities	3,617	4,683	25	8,325
Other investments (including derivative assets)	21	69	-	90

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Total financial investments, net of derivative liabilities	47,448	4,817	25	52,290
Percentage of total	91%	9%	0%	100%
Non-linked shareholder-backed				
Loans	-	251	-	251
Equity securities and portfolio holdings in unit trusts	543	41	197	781
Debt securities	9,754	43,050	317	53,121
Other investments (including derivative assets)	203	1,747	575	2,525
Derivative liabilities	(6)	(1,078)	(197)	(1,281)
Total financial investments, net of derivative liabilities	10,494	44,011	892	55,397
Percentage of total	19%	79%	2%	100%

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

Group total

Loans	-	251	-	251
Equity securities and portfolio holdings in unit trusts	70,008	1,094	673	71,775
Debt securities	24,346	87,440	1,548	113,334
Other investments (including derivative assets)	288	3,495	2,985	6,768
Derivative liabilities	(142)	(1,667)	(224)	(2,033)
Total financial investments, net of derivative liabilities	94,500	90,613	4,982	190,095
Borrowings attributable to the with-profits fund held at fair value	-	(88)	-	(88)
Investment contracts liabilities without discretionary participation features held at fair value	-	(13,863)	-	(13,863)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,665)	(590)	(412)	(2,667)
Other liabilities	-	(252)	-	(252)
Total	92,835	75,820	4,570	173,225
Percentage of total	53%	44%	3%	100%

31 December 2010

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

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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	108,039	75,447	4,194	187,680
Percentage of total	58%	40%	2%	100%

T 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:

		30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Insurance operations				
	UK(note(i))	2,401	2,214	2,302
	US(note (ii))	4,062	4,537	4,201
	Asia(note (iii))	1,283	1,383	1,340
Asset management operations				
	M&G(note (iv))	1,271	1,453	1,418
Total		9,017	9,587	9,261

Notes

(i) UK insurance operations

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

		30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
PAC WPSF				
	Mortgage loans*	269	197	256
	Policy loans	22	23	21
	Other loans**	1,031	969	993
	Total PAC WPSF loans	1,322	1,189	1,270

## Shareholder-backed

Mortgage loans*	1,075	1,019	1,027
Other loans	4	6	5
Total shareholder-backed loans	1,079	1,025	1,032
Total UK insurance operations loans	2,401	2,214	2,302

\*The mortgage loans are collateralised by properties.

\*\*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:

	30 Jun 2011	30 Jun 2010	31 Dec 2010
	£m	£m	£m
Mortgage loans+	3,525	3,948	3,641
Policy loans++	536	573	548
Other loans	1	16	12
Total US insurance operations loans	4,062	4,537	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:

	30 Jun 2011	30 Jun 2010	31 Dec 2010
	%	%	%
Industrial	27	30	31
Multi-family residential	23	18	18
Office	19	21	19
Retail	20	20	21
Hotels	10	10	10
Other	1	1	1
	100	100	100

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.3 million (30 June 2010: £7.1 million; 31 December 2010: £6.6 million). The portfolio has a current estimated average loan to value of 72 per cent (30 June 2010: 72 per cent; 31 December 2010: 73 per cent) which provides significant cushion to withstand substantial declines in value.

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:

	30 Jun 2011	30 Jun 2010	31 Dec 2010
	£m	£m	£m
Mortgage loans‡	31	18	25
Policy loans‡	544	497	528
Other loans‡‡	708	868	787

Total Asia insurance operations loans 1,283 1,383 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:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Loans and receivables internal ratings:			
A+ to A-	29	87	213
BBB+ to BBB-	943	907	873
BB+ to BB-	255	315	219
B+ to B-	44	144	113
Total M&G loans	1,271	1,453	1,418

#### U Debt securities portfolio

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 30 June 2011 provided in the notes below.

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Insurance operations			
UK (note(i))	74,818	72,072	74,304
US (note (ii))	25,286	27,371	26,366
Asia (note (iii))	15,357	12,425	14,108
Asset management operations(note (iv))	1,752	1,466	1,574
Total	117,213	113,334	116,352

#### (i) UK insurance operations

	PAC-with-profits sub-fund				Other funds and subsidiaries			UK insurance operations		
	Scottish Insurance Fund £m	Excluding Annuities Limited £m	Prudential Annuities Limited £m	Prudential Total £m	Unit-linked assets and liabilities £m	PRIL £m	Other annuity and long-term business £m	30 Jun 2011 Total £m	30 Jun 2010 Total £m	31 Dec 2010 Total £m
S&P – AAA	868	4,032	1,669	5,701	1,097	3,513	463	11,642	18,937	18,833
S&P – AA+ to AA-	350 1,184	2,128 7,511	1,323 3,676	3,451 11,187	543 1,561	2,430 6,677	266 828	7,040 21,437	6,371 20,695	6,885 21,508

S&P – A+ to A-										
S&P – BBB+ to BBB-	959	7,024	1,145	8,169	688	2,515	444	12,775	12,799	12,848
S&P – Other	352	2,364	106	2,470	64	165	29	3,080	2,724	3,403
	3,713	23,059	7,919	30,978	3,953	15,300	2,030	55,974	61,526	63,477
Moody's – Aaa	323	1,945	1,835	3,780	1,433	1,818	544	7,898	597	765
Moody's – Aa1 to Aa3	26	180	91	271	115	237	38	687	283	360
Moody's – A1 to A3	27	282	221	503	30	184	28	772	577	632
Moody's – Baa1 to Baa3	56	355	282	637	54	213	41	1,001	861	949
Moody's – Other	25	243	32	275	16	77	11	404	314	233
	457	3,005	2,461	5,466	1,648	2,529	662	10,762	2,632	2,939
Fitch	20	141	119	260	19	157	19	475	656	630
Other	465	3,026	2,295	5,321	93	1,635	93	7,607	7,258	7,258
Total debt securities	4,655	29,231	12,794	42,025	5,713	19,621	2,804	74,818	72,072	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 £7,607 million total debt securities held at 30 June 2011 (30 June 2010: £7,258 million; 31 December 2010: £7,258 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Internal ratings or unrated:			
AAA to A-	2,276	2,289	2,210
BBB to B-	3,791	3,529	3,861
Below B- or unrated	1,540	1,440	1,187
Total	7,607	7,258	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 £1,728 million PRIL and other annuity and long-term business investments which are not externally rated, £7 million were internally rated AAA, £130 million AA, £504 million A, £854 million BBB, £83 million BB and £150 million were internally rated B+ and below or unrated.

During the period 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 £25,286 million at 30 June 2011 (30 June 2010: £27,371 million; 31 December 2010: £26,366 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Summary			
Corporate and government security and commercial loans:			
Government	1,758	2,648	2,440
Publicly traded and SEC Rule 144A securities	14,872	14,444	14,747
Non-SEC Rule 144A securities	3,058	3,359	3,044
Total	19,688	20,451	20,231
Residential mortgage-backed securities	2,536	3,343	2,784
Commercial mortgage-backed securities	2,274	2,494	2,375
Other debt securities	788	1,083	976
Total debt securities	25,286	27,371	26,366

The following table summarises the securities detailed above by rating as at 30 June 2011 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of MBS based on NAIC valuations:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
S&P – AAA	3,252	5,600	4,187
S&P – AA+ to AA-	835	1,164	801
S&P – A+ to A-	5,490	6,118	5,156
S&P – BBB+ to BBB-	7,872	8,469	8,202
S&P – Other	939	833	866
	18,388	22,184	19,212
Moody's – Aaa	110	8	34
Moody's – Aa1 to Aa3	14	34	32
Moody's – A1 to A3	34	247	36
Moody's – Baa1 to Baa3	73	89	73
Moody's – Other	60	66	135
	291	444	310
Implicit ratings of MBS based on NAIC valuations (see below)			
NAIC 1	2,914	810	3,083
NAIC 2	209	161	181
NAIC 3-6	222	319	232
	3,345	1,290	3,496
Fitch	97	262	176
Other *	3,165	3,191	3,172
Total debt securities	25,286	27,371	26,366

In the table above, with the exception of some residential mortgage-backed securities and commercial mortgage-backed securities for 2010, 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.

During 2009 and 2010, the NAIC in the US revised the regulatory rating process for mortgage-backed securities. The table above includes these securities, where held by Jackson, using the regulatory rating levels 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's or Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
NAIC 1	1,217	1,240	1,193
NAIC 2	1,861	1,787	1,849
NAIC 3-6	87	164	130
	3,165	3,191	3,172

(iii) Asia insurance operations

	With-profits business £m	Unit-linked business £m	Other business £m	30 Jun 2011 Total £m	30 Jun 2010 Total £m	31 Dec 2010 Total £m
S&P – AAA	2,176	48	146	2,370	2,517	2,934
S&P – AA+ to AA-	440	107	1,434	1,981	2,679	2,138
S&P – A+ to A-	1,368	877	825	3,070	1,807	2,843
S&P – BBB+ to BBB-	799	63	204	1,066	952	913
S&P – Other	589	609	589	1,787	1,360	1,773
	5,372	1,704	3,198	10,274	9,315	10,601
Moody's – Aaa	752	239	353	1,344	216	65
Moody's – Aa1 to Aa3	46	68	15	129	115	115
Moody's – A1 to A3	59	13	74	146	243	130
Moody's – Baa1 to Baa3	32	6	14	52	103	95
Moody's – Other	29	6	29	64	33	49
	918	332	485	1,735	710	454
Fitch	103	3	40	146	237	49
Other	1,080	971	1,151	3,202	2,163	3,004
Total debt securities	7,473	3,010	4,874	15,357	12,425	14,108

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

	30 Jun 2011 Total £m	30 Jun 2010 Total £m	31 Dec 2010 Total £m
Government bonds	387	183	350
Corporate bonds rated as investment grade by local external ratings agencies	626	334	666
Structured deposits issued by banks which are rated, but specific deposits are not	113	4	5
Other	25	198	22
	1,151	719	1,043

(iv) Asset Management Operations

Of the total debt securities at 30 June 2011 of £1,752 million, £1,739 million was held by M&G.



		30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
M&G				
	AAA to A- by Standard and Poor's or Aaa rated by Moody's	1,573	1,353	1,468
	Other	166	97	92
Total M&G		1,739	1,450	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 30 June 2011 is as follows:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Shareholder-backed operations (excluding assets held in unit-linked funds):			
UK insurance operations (note (a))	993	1,102	1,181
US insurance operations (note (b))	5,598	6,921	6,135
Asian insurance operations (note (c))	110	76	113
Other operations (note (d))	659	360	437
	7,360	8,459	7,866
With-profits operations:			
UK insurance operations (note (a))	5,602	4,682	5,237
Asian insurance operations (note (c))	263	429	435
	5,865	5,111	5,672
Total	13,225	13,570	13,538

## (a) UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 30 June 2011 comprises:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Shareholder-backed business (30 June 2011: 46% AAA, 24% AA)(i)	993	1,102	1,181
With-profits operations (30 June 2011: 58% AAA, 11% AA)(ii)	5,602	4,682	5,237
Total	6,595	5,784	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:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
UK market	4,360	3,046	3,685
US market	1,242	1,636	1,552
	5,602	4,682	5,237

## (b) US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2011 comprises:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
RMBS Sub-prime (30 June 2011: 39% AAA, 11% AA)**	218	226	224
Alt-A (30 June 2011: 15% AAA, 4% AA)	390	425	415
Prime including agency (30 June 2011: 75% AAA, 1% AA)	1,928	2,692	2,145
CMBS (30 June 2011: 38% AAA, 13% AA)**	2,274	2,494	2,375
CDO funds (30 June 2011: 7% AAA, 3% AA)*, including Nil exposure to sub-prime	107	160	162
Other ABS (30 June 2011: 24% AAA, 17% AA), including £31m exposure to sub-prime	681	924	814
Total	5,598	6,921	6,135

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

\*\* MBS ratings refer to the ratings implicit within NAIC risk-based capital valuation (see note C (a)).

## (c) Asian insurance operations

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

The £263 million (30 June 2010: £429 million; 31 December 2010: £435 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
CMBS	88	113	251
CDO funds and ABS	175	316	184
Total	263	429	435

The £263 million includes £176 million (30 June 2010: £310 million; 31 December 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 £7 million (30 June 2010: £16 million; 31 December 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 £263 million, 52 per cent (30 June 2010: 49 per cent; 31 December 2010: 43 per cent) are investment graded by Standard and Poor's.

## (d) Other operations

Other operations' exposure to asset-backed securities at 30 June 2011 is held by Prudential Capital and comprises:

	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
RMBS Prime (30 June 2011: 90% AAA, 10% AA)	340	143	197
CMBS (30 June 2011: 24% AAA, 19% AA)	185	184	184
CDO funds and ABS - all without sub-prime exposure (30 June 2011: 68% AAA)	134	33	56
Total	659	360	437

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

(i) Valuation basis

Under IAS 39, unless categorised as 'held to maturity' or 'loans and receivables' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or where markets for the securities are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied. IFRS 7 requires classification of the fair values applied by the Group into a three level hierarchy. At 30 June 2011, 0.1 per cent of Jackson's debt securities were classified as level 3 (30 June 2010: 0.3 per cent; 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) Half year 2011 movements in unrealised gains and losses

In half year 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 £1,419 million. This increase primarily reflects the decrease in US Treasury rates. The gross unrealised gain in the statement of financial position increased from £1,580 million at 31 December 2010 to £1,685 million at 30 June 2011, while the gross unrealised loss decreased from £370 million at 31 December 2010 to £266 million at 30 June 2011.

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

	30 Jun 2011	Changes in Unrealised appreciation** Reflected as part of movement in comprehensive income	Foreign exchange translation	31 Dec 2010
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	3,512			4,372
Unrealised loss((iv)(a), (b))	(266)	94	10	(370)
Fair value (as included in statement of financial position)	3,246			4,002
Assets fair valued at or above book value				
Book value*	20,348			20,743
Unrealised gain	1,685	143	(38)	1,580

	Fair value (as included in statement of financial position)	22,033		22,323
Total				
	Book value*	23,860		25,115
	Net unrealised gain/(loss)	1,419	237	(28)
	Fair value (as included in statement of financial position)***	25,279		26,325
Reflected as part of movement in comprehensive income				
	Movement in unrealised appreciation	237		1,221
	Exchange movements	(28)		(15)
		209		1,206

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

\*\*Translated at the average rate of \$1.6055: £1.

\*\*\* Debt securities for US operations included in the statement of financial position at 30 June 2011 and as referred to in note U, comprise:

	30 Jun 2011 £m	31 Dec 2010 £m
Available-for-sale	25,279	26,325
Consolidated investment funds classified as fair value through profit and loss	7	41
	25,286	26,366

Included within the movement in gross unrealised losses for the debt securities of Jackson of £94 million as shown above was a net decrease in value of £2 million relating to sub-prime and Alt-A securities for which the carrying values are shown in the "Fair value of securities as a percentage of book value" table below.

(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 30 June 2011.

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

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

	30 Jun 2011		31 Dec 2010	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Between 90% and 100%	2,794	(66)	3,390	(102)
Between 80% and 90%	186	(32)	273	(44)
Below 80% (note(d))	266	(168)	339	(224)
Total	3,246	(266)	4,002	(370)

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

30 Jun 2011	31 Dec 2010
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	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
Between 90% and 100%	114	(4)	98	(6)
Between 80% and 90%	76	(13)	55	(9)
Below 80% (note(d))	44	(23)	56	(25)
Total	234	(40)	209	(40)

(b) Unrealised losses by maturity of security

	30 Jun 2011 £m	31 Dec 2010 £m
Less than 1 year	-	-
1 year to 5 years	(4)	(6)
5 years to 10 years	(32)	(47)
More than 10 years	(32)	(49)
Mortgage-backed and other debt securities	(198)	(268)
Total	(266)	(370)

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

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

	30 Jun 2011			31 Dec 2010		
	Non investment grade £m	Investment grade £m	Total £m	Non investment grade £m	Investment grade £m	Total £m
Less than 6 months	(6)	(11)	(17)	(3)	(67)	(70)
6 months to 1 year	(2)	(30)	(32)	(2)	-	(2)
1 year to 2 years	(4)	-	(4)	(13)	(20)	(33)
2 years to 3 years	(7)	(50)	(57)	(27)	(55)	(82)
More than 3 years	(49)	(107)	(156)	(58)	(125)	(183)
Total	(68)	(198)	(266)	(103)	(267)	(370)

At 30 June 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 £40 million (31 December 2010: £40 million), as shown above in note (a). Of these losses £4 million (31 December 2010: £1 million) relate to securities that have been in an unrealised loss position for less than one year and £36 million (31 December 2010: £39 million) to securities that have been in an unrealised loss position for more than one year.

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

As shown in the table (a) above, £168 million of the £266 million of gross unrealised losses at 30 June 2011 (31 December 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 £168 million (31 December 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:

Category analysis	30 Jun 2011 Fair value	31 Dec 2010 Fair value
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		Unrealised loss £m		Unrealised loss £m
Residential mortgage-backed securities				
Prime (including agency)	45	(17)	88	(39)
Alt - A	6	(2)	15	(4)
Sub-prime	38	(21)	41	(20)
	89	(40)	144	(63)
Commercial mortgage-backed securities.	9	(26)	8	(29)
Other asset-backed securities	118	(79)	123	(105)
Total structured securities	216	(145)	275	(197)
Corporates	50	(23)	64	(27)
Total	266	(168)	339	(224)

The following table shows the age analysis as at 30 June 2011, of the securities whose fair value were below 80 per cent of the book value:

	30 Jun 2011	
	Fair value £m	Unrealised loss £m
Age analysis		
Less than 3 months	22	(7)
3 months to 6 months	9	(2)
More than 6 months	235	(159)
	266	(168)

#### W Net core structural borrowings of shareholder-financed operations

	30 Jun 2011 £m	30 Jun 2010 £m	30 Dec 2010 £m
Core structural borrowings of shareholder-financed operations:(note (i))			
Perpetual subordinated capital securities (Innovative Tier 1) (note (ii))	1,764	1,533	1,463
Subordinated notes (Lower Tier 2)( note (ii))	1,280	1,234	1,255
Subordinated debt total	3,044	2,767	2,718
Senior debt( note (iii))			
2023	300	300	300
2029	249	249	249
Holding company total	3,593	3,316	3,267
PruCap bank loan(note (iv))	250	-	250
Jackson surplus notes (Lower Tier 2)( note (ii))	155	166	159
Total (per condensed consolidated statement of financial position)	3,998	3,482	3,676
Less: Holding company cash and short-term investments (recorded within the condensed consolidated statement of financial position)( note (v))	(1,476)	(1,023)	(1,232)
Net core structural borrowings of shareholder-financed operations	2,522	2,459	2,444

#### Notes

- (i) The maturity profile, currencies and interest rates applicable to the core structural borrowings of shareholder-financed operations of the Group are as detailed in note H13 of the Group's consolidated financial statements for the year ended 31 December 2010. Other than the changes described in notes (ii) and (iv) below, there are no changes affecting these core structural borrowings in the half year 2011.

- (ii) These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook. In January 2011, the Company issued US\$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US\$539 million (£340 million) and are intended to finance the repayments of the €500 million Tier 2 subordinated debt in December 2011.
- The Group has designated US\$2.85 billion (30 June 2010 and 31 December 2010: US\$2.3 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.
- (iii) The senior debt ranks above subordinated debt in the event of liquidation.
- (iv) The £250 million PruCap bank loan was made in December 2010 in two tranches: £135 million maturing in June 2014, currently drawn at a cost of twelve month £LIBOR plus 1.2 per cent and £115 million maturing in August 2012, currently drawn at a cost of six month £LIBOR plus 0.99 per cent. Prior to 20 June 2011, the £115 million tranche was drawn at a cost of six month £LIBOR plus 1.41 per cent.
- (v) Including central finance subsidiaries.

X	Other borrowings		
	30 Jun 2011 £m	30 Jun 2010 £m	31 Dec 2010 £m
Operational borrowings attributable to shareholder-financed operations(note (i))			
Borrowings in respect of short-term fixed income securities programmes	2,633	2,564	2,560
Non-recourse borrowings of US operations	34	171	90
Other borrowings (note (ii))	245	499	354
Total	2,912	3,234	