Business review

Group results

Results highlights

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER[4] 2005 £m	Change
Present value of new business premiums (PVNBP)[1]	**9,761**	9,507	3%	9,280	5%
Annual premium equivalent (APE) sales[1]	**1,255**	1,152	9%	1,121	12%
New business profit (NBP)[1]	**504**	431	17%	416	21%
NBP margin (% PVNBP)[1]	**5.2%**	4.5%		4.5%	
Total European Embedded Value (EEV) basis operating profit[2] [3]	**962**	837	15%	799	20%
Total International Financial Reporting Standards (IFRS) operating profit[2] [3]	**453**	489	(7)%	469	(3)%
EEV basis shareholders' funds (£bn)	**10.9**	9.1	20%	9.1	20%
IFRS shareholders' funds (£bn)	**5.0**	4.9	2%	5.0	–

(1) The details shown include the effect of the £592 million bulk annuity transfer from the Scottish Amicable Insurance Fund (SAIF) to Prudential Retirement Income Limited (PRIL), a shareholder owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund established by a court approved scheme of arrangement in September 1997, whose results are solely for the benefit of SAIF policyholders.

(2) Based on longer-term investment returns from continuing operations. Operating profit is stated excluding short-term fluctuations in investments returns and shareholders' share of actuarial and other gains and losses on defined benefit pension schemes.

(3) Including restructuring costs.

(4) Reported exchange rate (RER).

In the Business review and Financial review, period-on-period comparisons of financial performance are on a constant exchange rate (CER) basis, unless otherwise stated.

Group results

The Group has continued to grow in the first half of 2006 and this has resulted in a strong set of results.

Growth in sales and the improvement in aggregate new business profit (NBP) margin to 5.2 per cent on a present value of new business premiums (PVNBP) basis and 40 per cent on an annual premium equivalent (APE) basis led the Group to achieve NBP growth of 17 per cent. This, together with significant growth from the fund management operations and the increase in profits from the in-force insurance business partially offset by a loss in Egg, led to an increase of 15 per cent over the first half of 2005 in total European Embedded Value (EEV) basis operating profits.

On an International Financial Reporting Standards (IFRS) basis, operating profits were down seven per cent on the same period last year. Last year's result included one-off profits in Asia of £34 million. The loss in Egg is offset by significant growth in the US and the asset management businesses.

Basic earnings per share based on total EEV basis for the half year after minority interests were 43.8 pence for the half year of 2006, compared with a figure of 20.7 pence for the prior year. Basic earnings per share, based on total IFRS profit for the half year after minority interests, were 18.7 pence, up six pence from 2005 half year figure of 12.7 pence.

Impact of currency movements

Prudential has a diverse international mix of businesses with a significant proportion of its profit generated outside the UK. In preparing the Group's consolidated accounts, results of overseas operations are converted at rates of exchange based on the average of the year to date, whilst shareholders' funds are converted at period-end rates of exchange.

Changes in exchange rates from year to year have an impact on the Group's results when these are converted into pounds sterling for reporting purposes. In some cases, these exchange rate fluctuations can have a significant effect on reported results. For example, growth in the Asia new business profit on an EEV basis was 43 per cent at reported exchange rates (RER), compared to 34 per cent at CER.

Consequently, the Board has for a number of years reviewed and reported the Group's international performance on a CER basis. This basis eliminates the impact from conversion, the effects of which do not alter the long-term value of shareholders' interests in the non-UK businesses.

In the Business review and Financial review, period-on-period comparisons of financial performance are on a CER basis, unless otherwise stated.

Insurance

United Kingdom

	Half year 2006 £m	Half year 2005 £m	Change
PVNBP	**4,224**	4,797	(12)%
APE sales	**484**	533	(9)%
NBP	**138**	159	(13)%
NBP margin (% PVNBP)	**3.3%**	3.3%	
Total EEV basis operating profit*	**336**	144	133%
Total IFRS operating profit*	**205**	187	10%

*Excluding restructuring costs.

Prudential UK continued to focus on value rather than volume during the first half of 2006 with the new business margin of 3.3 per cent remaining in line with 2005. PVNBP fell 12 per cent on 2005, while on an APE basis sales fell nine per cent to £484 million from the corresponding period last year. APE sales in the first half of 2006 included £59 million from the acquisition of in-force pension annuities from the Scottish Amicable Insurance Fund (SAIF) in June 2006 and £66 million from the acquisition of pension annuities from Royal London in January 2006. The 2005 result included APE sales from the Phoenix Life and Pensions (PLP) transaction of £145 million, completed in June 2005. Excluding bulk annuity business, retail APE sales increased one per cent on 2005.

On an APE basis, the new business margin fell to 29 per cent, down from 30 per cent at the half year 2005. This primarily reflects an adverse shift in sales mix due to a reduced proportion of bulk annuity and Department of Work and Pensions (DWP) rebate business, and the negative impact of economic assumption changes which were offset by an increase in annuity yield margins.

An overall increase in retail margins (including DWP rebates) was offset by a decline in the bulk annuity margin reflecting increased competition in this market. This margin movement and the fall in sales volumes led to the overall decline in NBPs, down from £159 million to £138 million.

Total EEV basis operating profits increased 133 per cent, the 2005 result being impacted by a persistency assumption change. Prudential UK continues to monitor closely mortality and persistency experience. Current experience is in line with our assumptions.

Strong growth in IFRS profits attributable to the with-profits fund (due to excellent investment returns achieved in 2005 and the subsequent bonus announcement made in February 2006) and increased annuity profits led to an overall increase in IFRS profits of 10 per cent.

Bulk annuity sales fell 29 per cent on the first half of 2005 to £128 million. This is due largely to the completion of the large PLP back-book transaction in 2005 (£145 million APE) as well as the challenging conditions seen in the bulk annuity market in the first half of 2006.

Despite the slowdown seen in the first half of 2006, Prudential UK believes that there is significant potential within this market and it is well positioned to benefit given its strong brand, financial strength, extensive annuitant mortality risk assessment capabilities and its well regarded fixed income fund management teams allowing it to pursue an optimal investment strategy. However, Prudential UK will not chase headline growth but instead, maintain its focus on value. In particular, it will only look at transactions that generate an acceptable rate of return.

The first half of 2006 saw the completion of two further back-book transactions. In January, Prudential reached agreement with Royal London to acquire the portfolio of in-payment pension annuities that had been written primarily under the Royal London brand but which also included some annuities written under the Refuge Assurance brand. The transaction generated premium income of £66 million on an APE basis. In June, Prudential Assurance Company (PAC) agreed to reinsure the non-profit immediate pension annuity portfolio of the SAIF to Prudential Retirement Income Limited (PRIL). SAIF is a closed sub-fund established by a court approved Scheme of Arrangement in September 1997, in which Prudential shareholders have no economic interest. It contains a large proportion of the business originally written by the Scottish Amicable Life Assurance Society that was acquired by PAC in September 1997. The reinsurance premium for this transaction was £59 million on an APE basis.

Retail sales were up one per cent on 2005. Increased sales of individual annuities, with-profit bonds and offshore bonds were offset primarily by a decline in protection sales and DWP rebate business.

Total individual annuity APE sales for the first half of 2006 were up three per cent on the corresponding period last year at £114 million. This reflects the particularly strong second quarter performance in which APE sales were up 12 per cent on the same period last year.

The with-profits bonus announcement made in February 2006 was well received by both customers and advisers and contributed to increased interest in with-profit bonds and with-profit annuities with sales growth of 50 per cent and over 100 per cent respectively. Sales of with-profit annuities also benefited from the favourable comparison of their returns with the decline in conventional annuity rates seen in 2005 and early 2006.

Increased offshore bond sales (up 133 per cent) were offset by a decline in unit-linked bond sales (down 31 per cent) as Prudential chose to continue its focus on value, not volume. Within the unit-linked bond market, Prudential is focusing on intermediaries where it anticipates good persistency and thereby avoids the recycling of business which has been seen recently. Prudential has structured its commission rates in accordance with this strategy.

In line with this focus on value for both the customers and advisers, Prudential launched its new Flexible Protection Plan in July 2006. This innovative new protection product is designed to pay critical serious illness claimants earlier and more often than traditional protection products with, on average, four times as many serious illnesses covered. Payments will be based on severity levels and multiple claims for the same or new illness will be possible. This will be sold initially through Prudential's Direct channel and a number of financial advisers specialising in the protection market.

As a result of the mailing to its 440,000 customers contracted-out of the State Second Pension (S2P) for the 2005/2006 tax year, approximately 132,000 customers elected to contract back into the State scheme resulting in a decline in DWP rebate business of 30 per cent in the first half of 2006.

PruHealth continues to grow strongly with over 50,000 individuals now covered, a number that has almost doubled in the last six months. Contributing to this growth is the number of companies adopting PruHealth for their employee healthcare schemes, including British Airways voluntary scheme, Smith and Nephew and Norton Rose.

In June, Prudential and Royal London signed a partnership agreement under which Royal London will offer Prudential's annuity products on an exclusive basis to customers with maturing pensions originally written under the Royal London, Refuge and United Assurance Group (UAG) brands. The agreement, which is expected to take effect from September 2006 and run for five years, will cover new vesting annuities resulting from a range of pension policies.

In addition, Prudential and Royal London have reached agreement to reassure (and subsequently transfer) to Prudential all pension annuities arising from vestings between July 2005 and October 2006, for policies written under the same brands. This supplements the agreement reached between Prudential and Royal London in

January 2006 for Prudential to acquire the portfolio of in-payment pension annuities which were already in payment at 1 July 2005, and which again arose from vestings of policies written under the Royal London, Refuge and UAG brands.

Prudential has signed an exclusive five year agreement with Threadneedle as their supplier of annuities for Threadneedle's Stakeholder Scheme along with future defined contribution schemes which Threadneedle acquires. This is a new area for Prudential which builds on its experience in providing annuities to customers of life insurance companies. With the future growth in defined contribution schemes within the UK we expect more agreements of this type in the future.

In December 2005, Prudential announced total annualised pre-tax cost savings across the combined UK and Egg business of £40 million by the end of 2007. To help achieve this, Prudential UK has been reorganising its structure during the first half of 2006 to allow it to integrate the Egg banking business. This will allow the UK business to achieve greater efficiencies and thereby position itself to better meet its customers' needs, reduce costs and generate greater shareholder value. The business has been restructured to focus on the opportunities in the income in retirement, wealth and health and retail banking markets and mature products have been separated out and will now be managed as a specific business area. All of these areas now share single support functions, thereby reducing duplication across the two businesses.

An end-to-end review of the UK business aimed at reducing the overall cost base is under way. Total UK and Egg pre-tax cost savings are expected to be £150 million per annum by 2009. This includes the saving of £40 million previously announced in December 2005. £100 million will come from shareholder business and £50 million from policyholder business. The savings are currently expected to be neutral on an EEV basis but will benefit IFRS profits and the cash position of the integrated UK business. In total the cost of implementing these measures are expected to be £110 million pre-tax of which £70 million relates to the shareholder and £40 million to the policyholder. In the first half of 2006, a charge of £12 million 'restructuring' costs on an EEV basis and £11 million on an IFRS basis has been taken in relation to this in the UK.

The cost savings will be achieved by way of functional restructuring, site rationalisation and control of discretionary spend.

The With-Profits Fund benefited from a pre-tax investment return of 4.2 per cent in the first half of 2006 compared with 7.4 per cent in the comparable period of 2005. Over the last five years (to 30 June 2006), the With-Profits Fund has delivered a pre-tax total return of 48.9 per cent compared with the return on the FTSE All Share (Total Return) index over the same period of 27.8 per cent. The fund remains strong with an inherited estate estimated to be around £8.7 billion as at 30 June 2006, on a realistic valuation basis, compared with approximately £8.0 billion at the end of 2005. The PAC long-term fund is currently rated AA+ by Standard & Poor's, Aa1 by Moody's and AA+ by Fitch Ratings.

The table below shows the change in the investment mix of Prudential's main with-profits fund:

	Half year 2006 %	Full year 2005 %	Full year 2004 %
UK equities	**37**	40	33
International equities	**17**	19	15
Property	**16**	15	18
Bonds	**25**	21	29
Cash and other assets classes	**5**	5	5

Prudential UK will continue to pursue profitable opportunities in its chosen product areas and distribution channels in 2006 maintaining its focus on maximising value and return on capital.

United States

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
PVNBP	**3,209**	2,875	12%	2,749	17%
APE sales	**323**	288	12%	275	17%
NBP	**134**	99	35%	95	41%
NBP margin (% PVNBP)	**4.2%**	3.5%		3.5%	
Total EEV basis operating profit*	**350**	451	(22)%	431	(19)%
Total IFRS operating profit*	**227**	178	28%	169	34%

*Continuing operations.

Period-on-period comparisons of financial performance are on a CER basis, unless otherwise stated.

Jackson National Life (JNL), our US insurance business, had a strong first half to the year delivering PVNBP and APE sales growth of 12 per cent whilst maintaining the strong new business profit (NBP) margins achieved during 2005. JNL again delivered record variable annuity sales during the first half of 2006, and has now recorded seven consecutive record quarters of variable annuity growth.

Innovation in product design continues to be a key driver of JNL competitiveness, and during the first half of 2006 79 per cent of retail sales related to products and product features launched since the beginning of 2005. In January JNL added a five per cent annual benefit increase option to its popular lifetime guaranteed minimum withdrawal benefits (GMWB). In February, the company launched two new fixed index annuity contracts, Elite Choice and Elite Choice Rewards, which expanded the number of fixed index annuity products JNL offers to five. In May, JNL added five new GMWB options that provide contract holders with a guaranteed return of premium and lifetime income. Additionally, JNL expanded its variable annuity fund offering during the first half of the year.

The organisational flexibility and competency in execution which enables this product innovation, coupled with a powerful distribution model and strong service offering increased JNL's share of the variable annuity market to 4.2 per cent during the first quarter (VARDS), up from 3.3 per cent at the same time last year. JNL also improved its share of variable annuity sales through

the independent broker-dealer channel to 10.4 per cent at the end of the first quarter, up from 5.4 per cent two years ago, and 8.1 per cent at the same point in 2005.

At the 2006 half year, JNL had US$70.7 billion in GAAP assets. Of this total, US$21.0 billion related to variable annuity assets, an increase of US$2.9 billion compared to 2005 year-end, and up US$5.6 billion from 12 months ago, further diversifying JNL's earnings towards fee-based income.

The 12 per cent growth in APE sales to £323 million during the first half of 2006 reflects a 26 per cent increase in retail sales. This growth was driven by a 52 per cent increase in variable annuities to £189 million against market growth of 20 per cent (VARDS) in the year to March 2006. The increased variable annuity sales more than offset a reduction in sales of both fixed annuities and fixed index annuities, down 28 per cent to £31 million and six per cent to £29 million respectively. Entry spreads for fixed annuities continued to be challenging during the first half of the year, which limited the attractiveness of the market to JNL. To the end of May 2006 the fixed annuity market was down 9.3 per cent from the same point in the prior year (LIMRA).

Fixed index annuity sales continued to be impacted by the uncertain regulatory environment in the US, with total market sales to March 2006 down two per cent (LIMRA) from the prior year.

Institutional APE sales of £65 million, a market in which JNL participates on an opportunistic basis, were down 23 per cent from the prior year.

NBP of £134 million was 35 per cent above the prior year, reflecting both a 12 per cent increase in APE sales and an increase in margin from 35 per cent to 41 per cent half year on half year. The increase in margin reflects a favourable business mix; economic assumption changes, including the increase in the equity risk premium; and positive effects from the increase in election of high margin guaranteed benefit options on variable annuity contracts.

Total EEV basis operating profit at the half year 2006 was £350 million compared to £451 million in the prior year. In-force EEV profits of £212 million were 37 per cent below prior year profit of £339 million, primarily reflecting the inclusion in 2005 of an operating assumption change relating to price increases introduced on two older books of term life business representing £142 million, partially offset by an increase in the unwind of the in-force business during the first half of 2006. The unwind increased as a result of a higher opening embedded value and a higher risk discount rate as long-term interest rates increased.

The growth in IFRS operating profit of 28 per cent from the prior year to £227 million primarily reflects an increase in spread and fee income over the first half of 2005. The improved spread income from prior year relates primarily to spread earned on fixed index annuity assets and earnings in excess of the target on the regular portfolio, partially offset by lower spread from non-recurring make-whole and mortgage prepayment fees. Higher fee income of £59 million over prior year was primarily driven by higher separate account assets given the growth in variable annuity sales, and an improvement in the average fees generated from those assets given the increase in election of high margin guaranteed option benefits.

National Planning Holdings (NPH), JNL's independent broker network, had a strong first half to the year with profits up 33 per cent to £4 million. NPH, which is a network of four independent broker-dealers, increased sales through the network to US$6.1 billion in the six months to June 2006, an increase of 27 per cent over the prior year. NPH has also increased the number of registered advisors in its network to 2,660 at the half year, up from 2,421 in the prior year, further extending JNL's footprint in broker-dealer distribution.

Curian Capital, which offers customised separately managed accounts, recorded improved results with losses of £4 million in the first half improved from losses of £6 million in the prior year, as it continues to build scale in assets under management. At 30 June 2006 Curian Capital had US$1.98 billion (£1.07 billion) of assets under management compared with US$1.35 billion (£731 million) at the same point in the prior year.

In June 2006, JNL announced a new branding campaign designed to increase awareness of JNL's rich tradition, bold vision and innovative approach to developing and delivering a range of retirement planning solutions.

JNL continues to deliver growth in the attractive US market and has further enhanced its competitive advantage in the variable annuity market, offering the product and service solutions that both customers and advisors want. With a continued focus on product innovation, a proven relationship-based distribution model, award winning service and excellence in execution, JNL is well positioned to take advantage of the changing demographics and resulting opportunities in the US market.

Asia

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
PVNBP	**2,328**	1,835	27%	1,734	34%
APE sales	**448**	331	35%	313	43%
NBP	**232**	173	34%	162	43%
NBP margin (% PVNBP)	**10.0%**	9.4%		9.3%	
Total EEV basis operating profit*	**359**	269	33%	252	42%
Total IFRS operating profit**	**88**	126	(30)%	116	(24)%

*Excluding fund management operations, development and Asia regional head office expenses.

**Excluding fund management operations, development and Asia regional head office expenses. Half year 2005 includes exceptional items totalling £44 million.

Prudential continues its profitable growth in Asia through leveraging its multi-channel distribution capabilities and profitable and capital efficient products, well known brand and strong local management teams.

Across the region, new business growth remains strong at 27 per cent above the first half of 2005 on a PVNBP basis and 35 per cent on an APE basis. New business margins on APE are in line the same time last year at 52 per cent. Changes in geographic mix towards the higher growth, but lower margin markets of India and Korea were offset by an improved product mix. The proportion of linked business has increased from 58 per cent last half year to 66 per cent in 2006 on a PVNBP basis, and Asia have sold a lower proportion of lower margin linked business in Taiwan which was a feature of the results last year. Operating experience variances are marginally negative at £2 million. Excluding last half year's one-off exceptional items of £44 million, which included the release of reserves in Singapore, IFRS profits have increased by seven per cent to £88 million.

Prudential has developed its Asian business with a focus on building profitable and sustainable scale. This has led to a strong emphasis on product profitability and capital efficiency, and the business today has an average new business capital strain of less than three per cent of PVNBP. As a result, and in line with prior expectations Prudential Corporation Asia became a net capital contributor in the first half of 2006 with a net repatriation of £5 million. This occurred even while, as noted above, the business grew by 35 per cent on an APE basis.

Our Korean business grew 65 per cent over the first half of 2005 and has now become our largest country market in Asia in terms of new business APE. New business margin, at 38 per cent, is in line with the full year 2005. Our multi-channel approach is highly effective in Korea. Proprietary distribution continues to grow with the addition of nearly 400 financial consultants for a total force of over 1,600. These are highly professional agents and are twice as productive as Prudential Corporation Asia's regional average. We are also growing the broker network through providing attractive levels of service and support. Bank distribution continues to develop despite being constrained by regulatory volume caps imposed on our partner banks.

Our joint ventures in the large growth markets of India and China grew rapidly as well. ICICI-Prudential in India grew new business APE by 100 per cent over the same period last year driven by continued geographic expansion. There was a further boost to sales volumes in the second quarter due to a regulatory driven cessation of the current form of linked products. New linked products launched from 1 July 2006 have features designed to ensure customers take a longer-term view of insurance products.

In the first half of 2006, new business APE for our China joint venture increased by 36 per cent over the same period in 2005. CITIC-Prudential now has 14 city licenses up from 10 at 31 December 2005, and 11 cities operational with Wuxi (Jiangsu province) being licensed and launched in 2006. CITIC-Prudential has also been granted life licenses in Jiangmen in Guangdong province and further new provincial capitals, Jinan in Shandong and Hangzhou in Zhejiang province.

Our business in Indonesia continues to grow apace with a 45 per cent increase in new business over the same period last year. Prudential has been in Indonesia for 10 years and the operation is now well established with a high proportion of unit-linked business, good new business margins and reporting profits on an IFRS basis. At 28,000, agent numbers are almost doubled from last year. The life insurance market in Indonesia is still very much in its infancy and has considerable long-term potential.

Turning to the established markets, Singapore's first half new business growth on an APE basis was 32 per cent. Prudential has been a leading player in Singapore for many years, one of Asia's more competitive markets; however, during the first half of 2006 we have been able to leverage Prudential's regional and international fund management expertise to launch an appealing series of unit-linked funds to drive growth in single premiums of 64 per cent compared to the same period last year.

In Hong Kong, whilst new business volumes have increased more modestly at 10 per cent compared to last year, margins have increased from 52 per cent to 67 per cent driven by new products and higher productivity from the agency force.

In Malaysia, new business volumes have remained essentially in line with last year. During the first half of 2006, the Malaysian agency force was adjusting to a series of regulatory changes that started in the second half of 2005 affecting policy illustrations, minimum sum assureds and delays to new product approval. New business volumes remained in line with last year. In January 2006, Prudential and Bank Simpanan Nasional (BSN) were awarded a takaful (Islamic compliant life insurance) license to develop and market life insurance products to Muslim Malays who make up more than 60 per cent of the population. BSN (formerly the Post Office Savings Bank), is wholly owned by the Ministry of Finance and is one of the major banks in Malaysia with a nationwide network of 391 branches. This new joint venture will also use Prudential's tied agency distribution and is expected to launch in the third quarter of this year.

In Taiwan, the emphasis remains on capital efficient unit-linked products and new business has grown by 25 per cent compared to a weak first half last year. New business margins have increased from 39 per cent to 52 per cent reflecting a lower proportion of the retirement orientated linked product sold in the first half of last year.

Prudential's other markets of the Philippines, Thailand and Vietnam collectively remained in line with prior year. Prudential continues to retain its clear market leading position in Vietnam. The business is now generating profits under the IFRS basis, and we expect to launch unit-linked products in the second half of this year. In Thailand, we have recently opened the market's largest telemarketing call centre to take advantage of the significant direct marketing opportunity.

In summary, Prudential continues its excellent track record of building a profitable business in Asia with the ability to drive strong growth and increasing capital generation.

Asset management

M&G

	Half year 2006 £m	Half year 2005 £m	Change
Gross investment flows	**6,795**	3,579	90%
Net investment flows	**3,595**	1,680	114%
Underlying IFRS operating profits before performance-related fees	**91**	68	34%
Total IFRS operating profit	**100**	83	20%

Record net fund inflows and market leading investment performance led to M&G delivering a 34 per cent increase in underlying profit in the first half of 2006. Underlying profits (excluding performance-related fees) were £91 million in the first six months of the year, compared to £68 million for the same period last year. M&G's operating profit including performance fees was £100 million, an increase of 20 per cent.

M&G delivered an exceptional level of fund inflows in the first six months of the year, which reflects M&G's leading position in retail fund management, institutional fixed income, pooled life and pensions funds, property and private finance. Gross fund inflows were £6.8 billion, an increase of 90 per cent on the same period last year. Net fund inflows more than doubled to £3.6 billion, which is already 93 per cent of total net inflows achieved in the whole of 2005.

Gross fund inflows into M&G's retail businesses were their highest ever at £3.6 billion and were more than double those achieved in the first half of last year. Net fund inflows saw a near fourfold increase to £1.7 billion and have already exceeded the total net flows last year. This was on the back of excellent fund performance across M&G's equity, fixed income and property funds, which over the last three years has seen 77 per cent of M&G retail funds beating their UK sector average and 45 per cent delivering top quartile performance.

M&G's institutional businesses also enjoyed an excellent first half to the year. Gross fund inflows grew by 64 per cent to £3.2 billion and net inflows by 51 per cent to £1.9 billion. M&G continued its successful strategy of generating attractive new revenue streams using expertise developed for internal funds with the roll-out of its Episode global macro strategy to external clients. M&G's successful Collateralised Debt Obligation (CDO) programme continued with the launch of two new CDOs in the first half of 2006, bringing the total number launched to 13.

Asia

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
Net investment flows	**1,709**	571	199%	548	212%
Total IFRS operating profit*	**22**	3	633%	2	1,000%

*IFRS operating profit in 2005 was £12 million on RER, offset by £10 million of exceptional charges.

The Asian fund management business achieved a record first half year, delivering the highest first half inflows since the business was launched. Net inflows of £1.7 billion were up 212 per cent on the same period in 2005. Of the £1.7 billion in net inflows, £1.4 billion was in longer-term equity and fixed income products and £0.3 billion was in shorter-term money market funds. Third party funds under management in Asia at the half year were £10.9 billion, up 12 per cent compared to the end of the first half of 2005. In August last year, ICICI increased its stake in Prudential's Indian asset management joint venture from 45 per cent to 51 per cent. As a result, Prudential no longer consolidates this business at 100 per cent and the 2006 half year numbers are reported at 49 per cent. On a comparable basis, third party funds under management grew 27 per cent from the first half of 2005.

The strength of the Asian fund management business's geographic diversification, product innovation and delivery and strong fund performance has resulted in continued strong net inflows, especially in Korea and India. In India, our joint venture increased its funds under management to £3.7 billion** to become the number one ranked asset management company in India, overtaking a local incumbent that had held this rank since 1964. Prudential's first fund launch in China in April 2006 generated new inflows of £205 million (Prudential's share was £68 million).

Total funds under management as at 30 June 2006 were £26.2 billion, up 11 per cent on the first half of 2005. On a comparable basis adjusting as noted above for India the growth was 16 per cent. On an IFRS operating profit basis, profits for the first half were £22 million compared with £3 million for the same period in 2005. The first half profit numbers for 2005 were reduced by £10 million of exceptional charges related to bond funds in Taiwan. Excluding these charges profits grew by 69 per cent in the first half of 2006 when compared to the first half of 2005.

Prudential remains confident that its fund management business is ideally positioned to capitalise on the opportunities to grow this business strongly and profitably.

**Based on 100 per cent, Prudential only reports its 49 per cent share of funds under management and profits.

PPM America

	Half year 2006 £m	Half year CER 2005 £m	Change	Half year RER 2005 £m	Change
Funds under management (£bn)	**38**	40	(5)%	41	(7)%
Total IFRS operating profit	**4**	16	(75)%	15	(73)%

PPM America (PPMA) is the North American institutional investment manager of Prudential. PPMA's IFRS operating profits of £4 million are down from £16 million in the prior year. The decrease is primarily due to an £8 million reduction in investment related income primarily due to a one-off revaluation in 2005 of an investment vehicle managed by PPMA, and an increase in long-term incentive plan expense in 2006.

PPMA, which specialises in public and private fixed income and equity, and real estate securities, and, through its affiliate PPM Finance, Inc., commercial mortgage lending, had funds under management of US$70 billion at half year 2006 (including PPM Finance) down from US$73 billion in the prior year, of which 69 per cent relates primarily to JNL policyholder assets, 29 per cent to funds managed on behalf of other Prudential UK and Asian affiliates, and two per cent to funds managed for external clients, including CDOs and similar products.

Banking

Egg

	Half year 2006 £m	Half year 2005 £m	Change
IFRS operating profit from continuing operations*	**(39)**	13	(400)%
Highlights of banking business:*			
Net interest income	**163**	146	12%
Non-interest income	**71**	105	(32)%
Cost-to-income ratio	**45.9%**	44.2%	–
Bad debts	**(166)**	(117)	(42)%

*Excluding Funds Direct as being discontinued and re-engineering costs related to integration with Prudential UK.

Egg made a loss of £39 million for the first half of 2006, compared with a profit of £13 million for the same period in 2005. This performance is driven by a significant increase in bad debt charges (£49 million higher than the first half of 2005) in line with the rest of the unsecured lending industry. Within the Egg book the higher charge also reflects above average bad debt emerging from a specific cohort of the loan portfolio written in 2004. Additionally, non-interest income has fallen as a result of reduced sales of Payment Protection Insurance (PPI) products. Egg has made the decision to reduce new loan volumes by raising the threshold for new applicants consistent with its stated desire to only write new business that meets its hurdle return on capital threshold.

Egg is expecting to report an operating profit for the second half of 2006.

Egg had a strong performance in new credit card customer acquisition in the first quarter of 2006 with its balance switcher proposition delivering a record quarter in card issuance (153,000 visa cards). This was achieved despite a lower acceptance rate than previous due to the increase in thresholds to maintain the above industry average credit quality of the card book.

Egg's card book is performing well in a difficult market where consumers are spending and borrowing less on average. Outstanding balances across the industry have contracted by two per cent in the year to May, whilst Egg's balances have increased by three per cent to May.

Revenues have decreased by £17 million over the same period in 2005 primarily due to the strategic decision to scale back on new loans and the resultant impact on PPI sales. Whilst this partial withdrawal has driven an approximate £30 million year-on-year deficit in Egg's first half 2006 results, it will not impact long-term value as the loans being written in 2006 are of higher credit quality due to scorecard changes that we have continued to make consistent with our risk appetite. The benefit of these changes is expected to flow through in lower bad debt charges in 2007 to 2009.

Income from the credit card book rose by £16 million year-on-year, despite absorbing an additional £10 million IFRS cost associated with card acquisitions in the first quarter (which will reverse over the second half of 2006). The income was mostly driven by a 100bps increase in the headline APR in August 2005 and the extension of fees on balance transfers.

The bad debt charge in the first half of 2006 is significantly higher compared to last year (£49 million). This has predominantly been driven by the expected emergence of bad debt from the maturing card and loan portfolios after consistent periods of growth. This is exaggerated by a higher than expected ongoing bad debt charge from 2004 loan business. We believe that these charges are consistent with, or more favourable than, the higher bad debt charges being reported across the industry.

For the first half of 2006, Egg has also incurred £6 million of restructuring costs to deliver standalone cost and synergy savings committed to as part of the integration with Prudential's UK operations. The benefits of these synergies will be seen in 2006 and beyond.