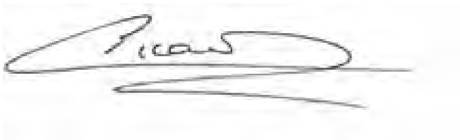
CHIEF FINANCIAL OFFICER'S OVERVIEW

Prudential's strong performance in the first six months of 2010, as shown in our results below, reflects the successful execution of the Group's strategy and builds on the momentum seen in 2009. We have continued to balance profitable growth, capital conservation and cash generation to both preserve our financial strength and improve our long-term profitability.

The 2010 half year results underline our value focus with all of our business operations reporting profitability improvements. In line with our disciplined approach of investing our capital in those markets and products with the highest return and shortest payback periods, we focused our efforts on the Asian region (particularly South-East Asia) and the US variable annuity business. New business APE sales[1] rose 28 per cent compared with the same period last year, with new business sales in Asia[1] and the US rising by 36 per cent and 43 per cent respectively. EEV new business profits rose by 27 per cent in the first six months of 2010 with the capital being invested in new business increasing by only six per cent. This sustained focus on new business cash and capital coupled with strong management of our in-force book has seen us improve our operating free surplus generated by 63 per cent and maintain a strong IGD solvency capital position.

We remain cautious on the global economic outlook, in particular for the mature western economies where continuing levels of consumer and government debt and unemployment threaten the prospects for a return to higher growth. However, Asia appears to be more resilient and in the first six months of 2010 Prudential has benefited from the recovery in markets in the region and our strong Asian franchise. Against this backdrop, we are confident that our disciplined approach to value and capital, coupled with our advantaged product and geographic business footprint, will continue to deliver relative outperformance for our shareholders.

Nic Nicandrou
Chief Financial Officer



Note
1 Excludes Japan which ceased writing new business in 2010.

Performance and key metrics

	AER[8]			CER[8]		AER[8]
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %	Full year 2009 £m
New business excluding Japan note 1						
Annual premium equivalent (APE) sales:						
– Asia	713	524	36	555	28	1,209
– US	560	392	43	383	46	912
– UK	382	376	2	376	2	723
– Total APE sales	1,655	1,292	28	1,314	26	2,844
EEV new business profit (NBP)	892	700	27	711	25	1,619
NBP margin (% APE)	54%	54%		54%		57%
Net investment flows	4,376	10,069	(56)	10,179	(57)	15,417
External funds under management	96,015	72,336	33	74,751	28	89,780
EEV basis operating profit						
On long-term business notes 2,3	1,749	1,303	34	1,309	34	3,202
Total	1,677	1,246	35	1,252	34	3,090
IFRS operating profit based on longer-term investment returns note 3	968*	688	41*	695	39	1,405
Balance sheet and capital						
EEV basis shareholders' funds	16.7bn	13.7bn	22	14.7bn	14	15.3bn
EEV basis shareholders' funds per share	657p	544p	21	583p	13	603p
Annualised return on embedded value note 6	16%	12%				15%
IFRS shareholders' funds	7.2bn	4.7bn	53	5.0bn	44	6.3bn
IGD capital surplus (as adjusted) note 4	3.4bn	2.5bn	36			3.4bn
Free surplus– Investment in new business, excluding Japan notes 1,5	337m	319m	6	319m	6	660m
Operating free surplus generated note 7	947m	581m	63	584m	62	1,414m
Operating holding company cash flow	24m	22m	9			38m
Dividend per share relating to the reporting year	6.61p	6.29p	5	6.29p	5	19.85p

* The Group IFRS operating profit of £968 million includes £123 million of net equity hedging gains (half year 2009: £23 million losses; full year 2009: £159 million losses) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of guarantees in Jackson's variable and fixed index annuity products, a significant proportion of which are not fair valued, net of related DAC. Excluding these amounts, which are variable in nature, Group IFRS operating profit increased by 19 per cent as compared to half year 2009.

Notes

1 New business sales, profits and free surplus invested in new business exclude the results of the Japanese life operation which ceased writing new business in February 2010, and the results of the Taiwan agency business for which the sale process was completed in June 2009.

2 Long-term business profits after deducting Asia development expenses and before restructuring and Solvency II implementation costs.

3 Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, transaction costs arising from business combinations in the period, costs associated with the terminated AIA transaction, and the effect of disposal and results of the Taiwan agency business, for which the sale process was completed in June 2009. In addition for EEV basis results, operating profit excludes the effect of changes in economic assumptions and the time value of cost of options and guarantees, and the market value movement on core borrowings. In half year 2010 the IFRS operating profits of Jackson National Life, the Group's US life operation included the benefit of an unusually high level of net equity hedge gains of £123 million.

4 Insurance Groups Directive capital surplus (as adjusted). The estimated surpluses shown for half year 2010 and half year 2009 are before allowing for the interim dividends for 2010 and 2009 respectively. The surplus for full year 2009 is before the 2009 second interim dividend.

5 Free surplus – investment in new business represents the reduction in EEV net worth together with EEV required capital to support the new business acquired.

6 Annualised return on embedded value is based on EEV operating profit after tax and non-controlling interests as a percentage of opening EEV basis shareholders' funds. Half year profits are annualised by multiplying by two.

7 Operating free surplus generated comprises underlying free surplus generated in the period from the Group's insurance and asset management operations less investment in new business.

8 Actual Exchange Rate (AER) and Constant Exchange Rate (CER).

In this review, comparisons of financial performance are on an actual exchange rate (AER) basis, unless otherwise stated.

In the first six months of 2010 Prudential has maintained the momentum seen in 2009, and delivered another strong performance thanks to a continued focus on its core disciplines of value creation and capital conservation. This approach delivered a step change in our new business profitability during 2009 whilst modestly increasing sales. In the first six months of 2010, we have held on to the 2009 margin gains while significantly growing our new business sales. Central to this achievement is the active management of our portfolio of products and businesses which, in 2010, saw us close to new business in Japan, withdraw from selling new business in the lifetime mortgage market in the UK, reduce our appetite for sales of fixed annuities in the US and target, instead, sales in the highly profitable markets of South-East Asia (including Hong Kong) and variable annuities in the US. Group APE new business sales[1] were £1,655 million for half year 2010, 28 per cent higher than for half year 2009 on a comparable basis. In Asia, sales were £713 million, up 36 per cent, representing the strongest half year sales performance in our history, with sales in our strategic area of focus of South-East Asia up 46 per cent to £452 million. In the US, Jackson continued to focus on low capital intensive variable annuity sales and its positive position in this market led to a 43 per cent increase in retail sales at £560 million. In the UK, our value focus delivered sales of £382 million, up two per cent relative to 2009 at improved margins.

We continue to see robust positive flows into our asset management businesses with net investment flows of £4.4 billion year to date (2009: £10.1 billion) driven by strong retail flows for M&G. The exceptional net flows in our M&G institutional fixed income funds and our Asian money market funds observed in 2009 were not repeated in 2010. With these contributions and recovering investment markets, external funds under management have increased by £6.2 billion to £96.0 billion during the six months ended 30 June 2010.

In half year 2010, total EEV basis operating profits based on longer-term investment returns of £1,677 million were up 35 per cent from half year 2009, with profitability from the Group's long-term business operations increasing 34 per cent to £1,749 million, and asset management operating profit being 55 per cent higher at £194 million reflecting higher funds under management. Operating profit from long-term operations comprised new business profit of £892 million, up 27 per cent compared to the same period last year, in-force profits of £861 million, up 40 per cent, and negative £4 million of other items including development expenses. Growth in new business profits has tracked the higher sales volumes delivered at an overall unchanged new business margin[1] of 54 per cent.

Higher in-force profits reflect the growing maturity of the book and improvements in experience, principally from Asia and the US. The unwind in discount and expected returns was higher by £92 million to £773 million, while the combined effect of experience variances and operating assumption changes was a contribution to profits of £88 million, representing a £152 million improvement from the combined loss of £64 million last year.

Higher interest costs on core structural borrowings have led to an increase in the charge from other income and expenditure in the period up £67 million to £262 million. We also commenced the implementation of Solvency II across the Group in the first half of 2010, incurring additional costs of £22 million in the period.

The total EEV profit before tax for half year 2010 of £954 million compares to a profit of £67 million for half year 2009. The falls in global equity markets and reduction in government yields during the first six months of 2010 resulted in adverse investment related variances, which were nevertheless, less severe than the equivalent period of 2009. The half year 2010 results are after £377 million (£284 million post-tax) of costs incurred in connection with the terminated AIA transaction.

Our IFRS operating profit[2] has increased by 41 per cent to £968 million. This result was driven by higher profits from all of our life businesses with long-term business operating profit up 40 per cent to £1,016 million, with strong contributions from Asia and the US. In the US, the half year 2010 operating profits included the benefit of hedge gains, which are variable in nature, arising from our management of equity exposure (net of related amortisation of deferred acquisition costs) of £123 million. Excluding this and the value of corresponding equivalent items in 2009, Group IFRS operating profits increased by 19 per cent. Contributions from our asset management and other non-long-term businesses increased by 43 per cent to £217 million reflecting the continuing growth in funds under management and the market improvement.

Operating holding company cash flow during the period was positive at £24 million. Net remittances from business operations were higher than last year at £460 million (2009: £375 million), exceeding Group operating expenditure of £118 million (2009: £127 million) and external dividends paid net of scrip of £318 million (2009: £226 million). At 30 June 2010 holding company cash resources and short-term investments amounted to £1,023 million. Furthermore, we have maintained the strong capital position with an unchanged IGD surplus relative to end-2009 of £3.4 billion, equivalent to a cover of 270 per cent.

In view of the strong operational performance and in line with our dividend policy, the Board has declared an interim dividend of 6.61 pence per share, five per cent higher than the 2009 interim dividend. Hong Kong shareholders on the Hong Kong branch register will receive a dividend of HK$0.8038, which equates to the sterling value as translated at the exchange rate ruling at the close of business on 11 August 2010[3].

Notes

1 Excludes Japan which ceased writing new business in 2010.

2 The Group IFRS operating profit of £968 million includes £123 million of net equity hedging gains (2009: £23 million losses) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of guarantees in Jackson's variable and fixed index annuity products, a significant proportion of which are not fair valued, net of related DAC. Excluding these amounts, which are variable in nature, Group IFRS operating profit increased by 19 per cent as compared to half year 2009.

3 The exchange rate at which the dividend payable to shareholders with shares in Central Depository securities accounts will be translated into Singapore dollars will be determined by the Central Depository.

EEV results

EEV basis operating profit based on longer-term investment returns

	AER[8]			CER[8]	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Insurance business					
Asia	**636**	401	59	418	52
US	**667**	501	33	490	36
UK	**449**	406	11	406	11
Development expenses	**(3)**	(5)	40	(5)	40
Long-term business profit	**1,749**	1,303	34	1,309	34
UK general insurance commission	**23**	27	(15)	27	(15)
Asset management business:					
M&G	**143**	102	40	102	40
Asia asset management	**36**	21	71	21	71
Curian	**2**	(3)	167	(3)	167
US broker dealer and asset management	**13**	5	160	5	160
	1,966	1,455	35	1,461	35
Other income and expenditure	**(262)**	(195)	34	(195)	34
Solvency II implementation costs	**(22)**	–		–	
Restructuring costs	**(5)**	(14)	(64)	(14)	(64)
Total EEV basis operating profit	**1,677**	1,246	35	1,252	34

In the first six months of 2010, Prudential Group's total EEV basis operating profit based on longer-term investment returns was £1,677 million, an increase of 35 per cent from the same period in 2009.

Long-term business profits generated by the Group increased by 34 per cent to £1,749 million. These profits comprise:

- New business profits[1] of £892 million (2009: £700 million);
- In-force profits of £861 million (2009: £617 million); and
- Negative £4 million of other items including development expenses (2009: negative £14 million).

New business profits[1] at £892 million, were 27 per cent higher than last year, reflecting a 28 per cent increase in sales volumes as compared to 2009. The average Group new business profit margin on these sales was 54 per cent (2009: 54 per cent) on an APE basis and 7.5 per cent (2009: 7.4 per cent) on a PVNBP basis. Overall, we have maintained the high new business APE profit margin achieved in the first half of 2009, with the effect of improvements in Asia (up one per cent to 56 per cent) and the UK (up three per cent to 35 per cent) being offset by the expected reduction in the US (down 10 per cent to 64 per cent) as spreads returned to more normal market levels.

The contribution from in-force operating profit increased by £244 million to £861 million, including unwind of discount and other expected returns that increased by £92 million to £773 million, primarily reflecting the growth of the portfolio in Asia and US. In-force profit in 2010 also includes the effects of operating assumption changes and experience variances and other items which aggregated positive £88 million, principally reflecting positive experience in the US, offset by negative experience in Asia.

Operating profit from the asset management business and other non-long-term businesses increased to £217 million, up 43 per cent from £152 million in half year 2009.

Other income and expenditure totalled a net expense of £262 million compared with £195 million in half year 2009, a negative impact of £67 million, principally reflecting an increase in interest payable on core structural borrowings.

Note
1 Excludes Japan which ceased writing new business in 2010.

EEV basis profit after tax and non-controlling interests

	AER[8] Half year 2010 £m	AER[8] Half year 2009 £m
EEV basis operating profit based on longer-term investment returns	1,677	1,246
Short-term fluctuations in investment returns:		
– Insurance operations	(239)	(566)
– IGD hedge costs	–	(216)
– Other operations	12	75
	(227)	(707)
Mark to market value movements on core borrowings	(42)	(108)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(25)	(71)
Effect of changes in economic assumptions and time value of cost of options and guarantees	(52)	(384)
Costs of terminated AIA transaction	(377)	–
Profit on sale and results of Taiwan agency business	–	91
Profit before tax from continuing operations	**954**	**67**
Tax attributable to shareholders' profit	(140)	(52)
Non-controlling interests	(2)	(1)
Profit after non-controlling interests	**812**	**14**

Short-term fluctuations in investment returns

EEV operating profit is based on longer-term investment return assumptions rather than actual investment returns achieved. Short-term fluctuations represent the difference between the actual investment return and those assumed in arriving at the reported operating profit.

Short-term fluctuations in investment returns for insurance operations of negative £239 million comprise a negative £21 million for Asia, negative £140 million for our US operations and negative £78 million in the UK.

For our Asian business, short-term fluctuations of negative £21 million (2009: positive £101 million) primarily reflected a deterioration in equity markets in the first half of 2010 partially offset by unrealised gains on the bond portfolio.

For our US business, short-term fluctuations in investment returns were negative £140 million (2009: negative £304 million), the reduction primarily reflecting substantially lower impairments and other realised losses for fixed income securities incurred in the period.

For our UK business, the short-term fluctuations in investment returns were negative £78 million (2009: negative £363 million), principally due to the return on the with-profits business of positive 2.6 per cent being lower than the long-term assumed return of 3.3 per cent for the half year 2010.

Short-term fluctuations in investment returns for other operations were positive £12 million, and mainly represent unrealised appreciation on Prudential Capital's debt securities portfolio. The half year 2009 result included £216 million costs incurred in respect of the hedge temporarily put in place during the first quarter to protect the IGD capital position in exceptional market conditions.

Mark-to-market movement on core borrowings

The mark-to-market movement on core borrowings was a negative £42 million, as credit spreads continued to narrow to more normal levels.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of a negative £25 million mainly reflects the impact of a reduced discount rate offset by lower inflation assumptions of the liabilities of the Scottish Amicable and M&G schemes.

Effect of changes in economic assumptions and time value of cost of options and guarantees

The effect of changes in economic assumptions and time value of cost of options and guarantees of negative £52 million comprises negative £56 million for the effect of changes in economic assumptions and positive £4 million for the change in the time value of cost of options and guarantees arising from changes in economic factors.

In our Asian business, economic assumption changes were negative £61 million mainly reflecting the impact of falls in interest rates and the derisking of the portfolios in Hong Kong and Singapore.

In our US business, economic assumption changes were negative £20 million, primarily reflecting a fall in the separate account return and the impact of lower investment return assumptions, offset by the beneficial effect arising from the decrease in the risk discount rate following a reduction of 0.9 per cent in the US 10-year Treasury rate during the period.

In our UK business, economic assumption changes were positive £25 million, where the impact of the lower risk discount rate more than offset the effect of lower expected long-term rates of return following a reduction in UK Gilt rates of 0.4 per cent during the first six months of 2010.

Costs of terminated AIA transaction

During the period the Group incurred costs in relation to the AIA transaction of £377 million. This comprises the termination break fee of £153 million, the costs associated with foreign exchange hedging of £100 million and underwriting and other fees totalling £124 million. After expected tax relief, the post tax cost is £284 million.

Effective tax rates

The effective tax rate at an operating level was 28 per cent (2009: 29 per cent) and the effective tax rate at a total EEV level was 15 per cent (2009: 78 per cent), with 2009 being adversely impacted by a reduction in the deferred tax credit relating to Jackson losses on fixed income securities and 2010 benefiting from a reduction in US deferred tax liabilities following changes to variable annuity reserving in accordance with revised statutory guidance.

IFRS results

IFRS basis operating profit based on longer-term investment returns

		AER[8]		CER[8]	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Insurance business					
Long-term business:					
Asia	262	212	24	224	17
US	450[1]	217	107[1]	212	112
UK	307	303	1	303	1
Development expenses	(3)	(5)	(40)	(5)	(40)
Long-term business profit	1,016	727	40	734	38
UK general insurance commission	23	27	(15)	27	(15)
Asset management business:					
M&G	143	102	40	102	40
Asia asset management	36	21	71	21	71
Curian	2	(3)	167	(3)	167
US broker-dealer and asset management	13	5	160	5	160
	217	152	43	152	43
Other income and expenditure	(240)	(179)	34	(179)	34
Solvency II implementation costs	(22)	–	(100)	–	(100)
Restructuring costs	(3)	(12)	75	(12)	75
Total IFRS basis operating profit based on longer-term investment returns	968[1]	688	41[1]	695	39

Group IFRS operating profit before tax based on longer-term investment returns after restructuring costs was £968 million, an increase of 41 per cent on 2009. In half year 2010, the operating profits of our US life operation included the benefit of net equity hedge gains of £123 million (2009: £ 23 million losses). These variable gains/losses arise from the difference between the fair value of the derivatives held to manage equity risk and the movement in the associated guarantee liabilities of which a substantial proportion are not fair valued under US GAAP, the grandfathered accounting basis under IFRS 4. Excluding the net equity hedge results, the Group's operating profit increased by 19 per cent from £711 million to £845 million.

In Asia, IFRS operating profit for long-term business increased by 24 per cent from £212 million in half year 2009 to £262 million in half year 2010. This increase reflects both underlying growth as we build our in-force book and improvement in new business strain from a charge of £47 million in half year 2009 to a charge of £43 million in half year 2010. This improvement compares to an increase in APE new business sales[2] of 36 per cent demonstrating the Group's disciplined approach to capital. The £212 million in half year 2009 is inclusive of a £63 million one-off credit relating to the Malaysia reserving basis.

There was a strong performance across the Asian region. Hong Kong, Singapore, Malaysia and Indonesia account for 76 per cent or £198 million of operating profits (2009: £213 million, including the impact of the exceptional credit recorded in Malaysia). Strong underlying improvements were reported in Indonesia with operating profits higher by 66 per cent to £70 million reflecting the strong business growth and growing maturity of this business. Malaysia operating profits, excluding the exceptional credit in 2009, were also higher by 41 per cent to £45 million reflecting the growing policyholder liabilities of this business. The contribution to IFRS profits from the other Asian businesses is also improving. The closure of Japan to new business has substantially reduced the IFRS losses of this business, while Taiwan broke even in the period as it refocused on bancassurance business. Korea benefited from reduced new business strain in the period and Vietnam was up 50 per cent to £21 million. Changes to reserving bases in India and China contributed a £19 million profit, with both countries showing improvement in their underlying results excluding this change.

Notes
1 The US IFRS operating profit of £450 million includes £123 million of net equity hedging gains (2009: £23 million losses) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of guarantees in Jackson's variable and fixed index annuity products, a significant proportion of which are not fair valued, net of related DAC. Excluding these amounts, which are variable in nature, Group IFRS operating profit increased by 19 per cent and US operating profit by 36 per cent as compared to half year 2009.
2 Excludes Japan which ceased writing new business in 2010.

IFRS basis results – Analysis of life insurance pre-tax IFRS operating profit based on longer-term investment returns by driver

		AER[8]		CER[8]	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Investment spread	**571**	514	11	509	12
Asset management fees	**321**	203	58	203	58
Net expense margin	**(205)**	(209)	2	(211)	3
DAC amortisation* (Jackson only):					
Underlying	**(199)**	(148)	(34)	(145)	(37)
Acceleration	**(67)**	(12)	(458)	(12)	(458)
Net insurance margin	**309**	217	42	221	40
With-profits business	**171**	158	8	159	8
Non-recurrent release of reserves for Malaysian life operation	**–**	63	(100)	67	(100)
Other	**(8)**	(36)	78	(33)	76
Net equity hedge gains (losses) within Jackson	**123**	(23)	635	(24)	613
Total	**1,016**	727	40	734	38

* Excluding amounts for equity hedge and related effects.

In the US, the long-term business operating profit increased by 107 per cent from £217 million in half year 2009 to £450 million in half year 2010. The 2010 result includes equity hedge gains (net of related DAC amortisation) of £123 million (2009: losses of £23 million). These gains and losses, which are variable in nature, reflect the difference between the value movement included in operating profit on free standing derivatives held to manage equity risk, and the accounting charge for movements in liabilities for guarantees in Jackson's variable and fixed index annuity products. For Guaranteed Minimum Death Benefit (GMDB) and 'for-life' Guaranteed Minimum Withdrawal Benefit (GMWB) features the liabilities are not fair valued for accounting purposes but are reported pursuant to the US GAAP measurement basis applied for IFRS reporting. Over the longer-term it is anticipated that the variable gains and losses arising will substantially reverse. The total cumulative impact of these equity hedge results, net of related deferred acquisition costs, for the 30 months ended 30 June 2010 is a small gain of £35 million.

Excluding the net equity hedge result, Jackson's operating profit increased by 36 per cent from £240 million in half year 2009 to £327 million, reflecting strong underlying performance driven by improved spread and fee income, up £88 million and £98 million respectively. These positive inflows have been offset by increases in expenses and DAC amortisation primarily reflecting Jackson's increased profitability and an increased charge for accelerated variable annuity DAC amortisation which increased from £12 million in half year 2009 to £67 million in half year 2010 arising from lower than projected levels of market returns in the period.

In our UK business, total IFRS operating profit was in line with last year at £330 million. The long-term business IFRS operating profit was slightly ahead at £307 million (2009: £303 million). Our value focus saw us continue the strong profit contribution from annuities. Profits from the with-profits business were £7 million higher at £154 million. Profit from UK general insurance commission decreased by £4 million to £23 million in 2010 in line with the decline in the in-force policy numbers as the business matures.

M&G's operating profit for 2010 was £143 million, an increase of 40 per cent from £102 million in 2009. This record level of interim profits for M&G reflects higher equity market levels, the continuation of exceptionally strong net inflows, particularly in the Retail Business, and increased sales of more profitable equity products.

The Asian asset management operations reported operating profits of £36 million, up by 71 per cent from £21 million in 2009. This reflects higher funds under management during the period and the benefits of cost cutting actions taken in 2009. Profit in 2009 was adversely impacted by a one-off loss in India of £6 million.

The £61 million increase in the charge for other income and expenditure to £240 million primarily reflects an increase in interest payable on core structural borrowings.

IFRS basis results – Analysis of life insurance pre-tax IFRS operating profit based on longer-term investment returns by driver

Investment spread has increased by 11 per cent to £571 million for the first half of 2010. This has been driven by an improvement in US spread income, which has increased by £88 million, following both higher investment income and lower amounts credited to policyholders. Investment income changes reflect higher invested assets, higher amortisation of interest related gains and the impact of changes to the portfolio to lengthen duration. The increase in the US has been offset by a fall in UK spread income from shareholder annuity business.

Asset management fees have increased by 58 per cent to £321 million in 2010, with growth arising principally in our US business where improved equity markets in the latter part of 2009 and early part of 2010 and strong net flows into variable annuities have led to a 69 per cent increase in average separate account balances and an equivalent rise in fee income in the US.

IFRS basis profit after tax

	AER[8]	
	Half year 2010 £m	Half year 2009 £m
Operating profit based on longer-term investment returns	968	688
Short-term fluctuations in investment returns:		
– Insurance operations	14	61
– IGD hedge costs	–	(216)
– Other operations	12	75
	26	(80)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(24)	(63)
Costs of terminated AIA transaction	(377)	–
Loss on sale and results of Taiwan agency business	–	(621)
Profit (loss) before tax from continuing operations attributable to shareholders	593	(76)
Tax charge attributable to shareholders' profit	(149)	(182)
Non-controlling interests	(2)	4
Profit (loss) for the year attributable to equity holders of the Company	442	(254)

The ***net expense margin*** has narrowed marginally from negative £209 million in 2009 to negative £205 million in 2010. Improvements of £49 million in Asia and the UK have been offset by higher expenses in the US of £45 million, following higher non-deferrable commission payments as policyholder asset values increased in line with strong sales growth.

The increase in Jackson's underlying ***DAC amortisation*** of £51 million principally reflects the improvement in spread income and asset management fees in the period. The increase in the charge for accelerated amortisation arising from adverse market returns increased by £55 million from £12 million in half year to £67 million in half year 2010.

Net insurance margin has grown by 42 per cent to £309 million in 2010 principally reflecting growth in our Asian in-force book and increased guarantee fees from our growing variable annuity book in the US.

Net equity hedge gains (losses) within Jackson, being the movement in operating derivatives in the period and associated DAC and policyholder liability movements, was £123 million positive in the first half of 2010, compared with £23 million negative in the first half of 2009. These gains and losses, which are variable in nature, reflect the difference between the value movement included in operating profit on free standing derivatives held to manage equity risk, and the accounting charge for movements in liabilities for guarantees in Jackson's variable and fixed index annuity products. For Guaranteed Minimum Death Benefit (GMDB) and 'for-life' Guaranteed Minimum Withdrawal Benefit (GMWB) features the liabilities are not fair valued for accounting purposes but are reported pursuant to the US GAAP measurement basis applied for IFRS reporting. Excluding these amounts the total long-term business profit was £893 million, an increase of 19 per cent on the prior period.

IFRS basis profit after tax

The total profit before tax from continuing operations attributable to shareholders was £593 million in 2010, compared with a loss of £76 million in 2009. The improvement reflects the increase in operating profit based on longer-term investment returns and the impact of one-off items. The profit in half year 2010 was reduced by the terminated AIA transaction costs of £377 million, whereas half year 2009 was adversely impacted by the £621 million loss recorded as part of the disposal of the Taiwan Agency business and IGD hedge costs of £216 million.

In calculating the IFRS operating profit, we use longer-term investment return assumptions rather than actual investment returns arising in the year. The difference between actual investment returns recorded in the income statement and longer-term returns is shown in the analysis of profits as short-term fluctuations in investment returns.

IFRS short-term fluctuations in investment returns

Short-term fluctuations in investment returns for our insurance operations of positive £14 million comprise positive £41 million for Asia, negative £120 million for US operations and positive £93 million in the UK.

The positive short-term fluctuations of £41 million for our Asian operations primarily reflect unrealised gains on the shareholder debt portfolio.

The negative short-term fluctuations of £120 million for our US operations principally arise on derivative and embedded derivative value movements. The negative fluctuations from longer-term levels arising in the period from the implied equity volatilities and interest rates used in valuing equity related derivatives and embedded derivatives are only partially offset by the positive market movements of non-equity related derivatives.

The positive short-term fluctuations of £93 million for our UK operations reflect principally value movements on the assets backing the capital of the shareholder-backed annuity business.

Short-term fluctuations for other operations was positive £12 million, and mainly represent unrealised appreciation on Prudential Capital's debt securities portfolio.

Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes

The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes of a negative £24 million reflects the impact of a reduced discount rate and offset by lower inflation assumptions of the liabilities of the Scottish Amicable and M&G schemes.

Costs of terminated AIA transaction

As previously discussed, the Group incurred costs of £377 million (£284 million post-tax) related to the terminated AIA transaction.

Effective tax rates

The effective rate of tax on operating profits, based on longer-term investment returns, was 25 per cent (2009: 26 per cent). The effective rate of tax at the total IFRS profit level for continuing operations was 25 per cent (2009: negative 239 per cent) with 2009 being adversely impacted by the loss on disposal of the Taiwan agency business receiving no tax relief and a restriction on the level of deferred tax asset that could be recognised within Jackson.

Earnings and dividend per share

Earnings per share

	2010 Half year pence	2009 Half year pence
Basic EPS based on operating profit after tax and non-controlling interest		
EEV	48.0	35.4
IFRS	28.6	20.5
Basic EPS based on total profit/(loss) after non-controlling interests		
EEV	32.2	0.6
IFRS	17.5	(10.2)

Dividend per share

The 2010 interim dividend of 6.61 pence per ordinary share will be paid on 23 September 2010 in sterling to shareholders on the principal and Irish branch registers at 6.00 pm BST on Friday 20 August 2010 (the Record Date), on 24 September 2010 in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 pm Hong Kong time on the Record Date (HK Shareholders), and on or about 30 September 2010 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00 pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be HK$0.8038 per ordinary share, which equates to the sterling value translated at the exchange rate ruling at the close of business on 11 August 2010. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG$ will be determined by CDP.

It is intended that shareholders will be able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The Board will maintain its focus on delivering a growing dividend, which will continue to be determined after taking into account our Group's financial flexibility and our assessment of opportunities to generate attractive returns by investing in specific areas of the business. The Board believes that in the medium-term a dividend cover of around two times is appropriate.

Movement on shareholders' funds

	EEV			IFRS		
	Half year 2010 £m	Half year 2009 AER[8] £m	Full year 2009 AER[8] £m	Half year 2010 £m	Half year 2009 AER[8] £m	Full year 2009 AER[8] £m
Operating profit based on longer-term investment returns	**1,677**	1,246	3,090	**968**	688	1,405
Items excluded from operating profit	**(723)**	(1,179)	(1,347)	**(375)**	(764)	(659)
Total profit (loss) before tax	**954**	67	1,743	**593**	(76)	746
Tax, discontinued operations and non-controlling interests	**(142)**	(53)	(498)	**(151)**	(178)	(70)
Profit (loss) for the period	**812**	14	1,245	**442**	(254)	676
Exchange movements, net of related tax	**798**	(1,104)	(750)	**307**	(298)	(195)
Unrealised gains and losses on Jackson securities classified as available for sale note 1	**–**	–	–	**419**	423	1,043
Dividends	**(344)**	(322)	(481)	**(344)**	(322)	(481)
New share capital subscribed	**39**	96	141	**39**	96	141
Other	**94**	80	162	**27**	17	29
Net increase (decrease) in shareholders' funds	**1,399**	(1,236)	317	**890**	(338)	1,213
Shareholders' funds at beginning of period	**15,273**	14,956	14,956	**6,271**	5,058	5,058
Shareholders' funds at end of period	**16,672**	13,720	15,273	**7,161**	4,720	6,271
Comprising						
Long-term business						
Free surplus note 2	**2,737**	1,365	2,065			
Required capital	**3,249**	2,799	2,994			
Net worth note 3	**5,986**	4,164	5,059			
Value of in-force	**11,176**	9,510	10,283			
Total	**17,162**	13,674	15,342			
Other business note 4	**(490)**	46	(69)			
Total	**16,672**	13,720	15,273			

Notes
1 Net of related change to deferred acquisition costs and tax.
2 The increase in free surplus of £672 million from full year 2009 arises primarily from £849 million being generated by the long-term business, offset by cash paid to the holding company and other items.
3 The increase in net worth in the period principally reflects the free surplus generated in the period, offset by cash paid to the holding company and other items.
4 Shareholders' funds for other than long-term business of negative £490 million comprises £1,711 million for asset management operations, including goodwill of £1,230 million, holding company net borrowings of £2,343 million and net other shareholders' funds of £142 million.

EEV
On an EEV basis, which recognises the shareholders' interest in long-term business, shareholder funds at 30 June 2010 were £16.7 billion, an increase of £1.4 billion from the full year 2009 level, equivalent to nine per cent. This increased level of shareholders' funds primarily reflects the profit after tax of £0.8 billion, the positive effects of exchange movements of £0.8 billion offset by the dividend payments of £0.3 billion.

The shareholders' funds at 30 June 2010 relating to long-term business of £17.2 billion comprise £6.7 billion (up 16 per cent from end-2009) for our Asian long-term business operations, £5.0 billion (up 21 per cent from end-2009) for our US long-term business operations and £5.5 billion (consistent with end-2009) for our UK long-term business operations.

At 30 June 2010, the embedded value for our Asian long-term business operations was £6.7 billion, with £5.4 billion (up 17 per cent from end-2009) being in the South-East Asia countries of Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam together with Hong Kong. For Prudential's other Asian markets, the embedded value was £1.3 billion (up eight per cent from end-2009) in aggregate.

IFRS
Statutory IFRS basis shareholders' funds at 30 June 2010 were £7.2 billion. This compares to the £6.3 billion at 31 December 2009, an increase of £0.9 billion, equivalent to 14 per cent.

The movement reflects the profit for the year after tax of £0.4 billion, exchange translation gains of £0.3 billion, the improvement in the level of net unrealised gains on Jackson's debt securities of £0.4 billion from the position at 31 December 2009 and other items of £0.1 billion, offset by dividend payments of £0.3 billion.

Free surplus and holding company cash flow

	AER[8]		
	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
Free surplus generation			
Expected in-force cash flows (including expected return on net assets)	1,115	949	1,914
Changes in operating assumptions and variances	171	(37)	175
Underlying free surplus generated in the period	1,286	912	2,089
Market related items	52	(502)	(198)
Investment in new business:			
Excluding Japan	(337)	(319)	(660)
Japan	(2)	(12)	(15)
Total investment in new business	(339)	(331)	(675)
Free surplus generated in the period from retained businesses	999	79	1,216
Effect of disposal and trading results of Taiwan agency business	–	987	987
Net cash remitted by the business units	(460)	(375)	(688)
Other movements and timing differences	165	241	157
Total movement during the period	704	932	1,672
Free surplus at 1 January	2,531	859	859
Free surplus at end of period	3,235	1,791	2,531
Comprised of:			
Free surplus relating to long-term insurance business	2,737	1,365	2,065
Free surplus of other insurance business	17	19	37
IFRS net assets of asset management businesses excluding goodwill	481	407	429
Total free surplus	3,235	1,791	2,531

Free surplus generation

Sources and uses of free surplus generation from the Group's insurance and asset management operations

Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital movements, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

For asset management operations we have defined free surplus generation to be total post-tax IFRS profit for the period. Group free surplus generated also includes the general insurance commission earned during the period and excludes shareholders' other income and expenditure, and centrally arising restructuring and Solvency II implementation costs.

During the first six months of 2010 we generated total free surplus from the retained businesses of £999 million (2009: £79 million). Underlying free surplus generated from the in-force book increased 41 per cent from £912 million in 2009 to £1,286 million in 2010, principally reflecting the underlying growth of the portfolio, and positive changes in operating assumptions and variances of £171 million for our life businesses (2009: negative £37 million). These positive changes include £110 million arising in the UK (2009: negative £60 million) and £96 million in the US principally reflecting favourable spread experience (2009: positive £56 million), and were offset by the negative changes in Asia of £35 million (2009: negative £33 million).

Underlying free surplus generated has been used by our life businesses to invest in new business. Investment in new business[1] has risen by six per cent to £337 million in 2010. This compares to a 28 per cent increase in sales and this improved capital efficiency is primarily the result of continuing the active management of the product mix of the new business sold to achieve the Group's disciplined approach to capital usage.

Market related movements have improved from negative £502 million in 2009 to positive £52 million in 2010, of which £36 million relates to the US.

Note
1 Excludes Japan which ceased writing new business in 2010.

Value created through investment in new business by life operations

	Half year 2010						
	Asian operations						
	Excluding Japan £m	Japan £m	Total £m	US operations £m	UK insurance operations £m	Group total excluding Japan £m	Group total including Japan £m
Free surplus invested in new business	(123)	(2)	(125)	(179)	(35)	(337)	(339)
Increase in required capital	39	–	39	146	38	223	223
Net worth invested in new business	(84)	(2)	(86)	(33)	3	(114)	(116)
Value of in-force created by new business	382	1	383	268	94	744	745
Post tax new business profit for the year	298	(1)	297	235	97	630	629
Tax	98	–	98	126	38	262	262
Pre-tax new business profit for the year	396	(1)	395	361	135	892	891
New business sales (APE)	713		720	560	382		
New business margins (% APE)	56%		55%	64%	35%		
Internal rate of return*	>20%		>20%	>20%	>15%		

	AER[8] Half year 2009						
	Asian operations						
	Excluding Japan £m	Japan £m	Total £m	US operations £m	UK insurance operations £m	Group total excluding Japan £m	Group total including Japan £m
Free surplus invested in new business	(106)	(12)	(118)	(168)	(45)	(319)	(331)
Increase in required capital	29	–	29	149	42	220	220
Net worth invested in new business	(77)	(12)	(89)	(19)	(3)	(99)	(111)
Value of in-force created by new business	289	3	292	209	89	587	590
Post tax new business profit for the year	212	(9)	203	190	86	488	479
Tax	74	–	74	102	36	212	212
Pre-tax new business profit for the year	286	(9)	277	292	122	700	691
New business sales (APE)	524		553	392	376		
New business margins (% APE)	55%		50%	74%	32%		
Internal rate of return*	>20%		>20%	>20%	>15%		

	CER[8] Half year 2009						
	Asian operations						
	Excluding Japan £m	Japan £m	Total £m	US operations £m	UK insurance operations £m	Group total excluding Japan £m	Group total including Japan £m
Free surplus invested in new business	(110)	(13)	(123)	(164)	(45)	(319)	(332)
Increase in required capital	30	–	30	146	42	218	218
Net worth invested in new business	(80)	(13)	(93)	(18)	(3)	(101)	(114)
Value of in-force created by new business	305	3	308	204	89	598	601
Post tax new business profit for the year	225	(10)	215	186	86	497	487
Tax	78	–	78	100	36	214	214
Pre-tax new business profit for the year	303	(10)	293	286	122	711	701
New business sales (APE)	555		585	383	376		
New business margins (% APE)	55%		50%	74%	32%		
Internal rate of return*	>20%		>20%	>20%	>15%		

* The internal rate of return is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the lifetime of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up statutory reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

Overall, the Group wrote £1,655 million of sales on an APE basis[1] in 2010 (2009: £1,292 million) generating a post-tax new business contribution to embedded value of £630 million (2009: £488 million). To support these sales, we invested £337 million of capital (2009: £319 million). We estimate the Group's internal rate of return for the six months ended 30 June 2010 to be greater than 20 per cent. The amount of capital invested covers both new business strain, including commissions, of £114 million (2009: £99 million) and the required capital of £223 million (2009: £220 million). Management's focus continued to be on capital preservation and so capital investment was focused on those areas which added most value to the Group. While overall investment in new business has risen, the amount of post-tax new business profit contribution (excluding Japan) to embedded value per £1 million of free surplus invested increased by 27 per cent to £1.9 million (2009: £1.5 million) as a result of this strategy.

In Asia, investment in new business[1] was £123 million, which was up 12 per cent compared to 2009 on a CER basis (£110 million). This compares to a 28 per cent increase in new business sales (APE) on a CER basis. For each £1 million of free surplus invested we generated £2.4 million of post-tax new business contribution to embedded value (excluding Japan) (2009: £2.0 million). This increase arises both from a shift in business mix to the high margin territories of South-East Asia and Hong Kong and a lower capital strain as a result of a change in the product mix to more efficient participating and linked products. The reduced strain is offset by negative changes principally arising from the adoption of higher new business required capital levels in a number of businesses in the second half of 2009. The average free surplus undiscounted payback period for business written in the six months to 30 June 2010 was three years (2009: four years).

In the US, investment in new business was £179 million, nine per cent higher than 2009 on a CER basis (£164 million) considerably lower than the 46 per cent increase in APE new business sales on a CER basis. For each £1 million of free surplus invested we generated £1.3 million of post-tax new business contribution to embedded value (2009: £1.1 million). This higher return reflects a change in business mix with a higher proportion of capital light variable annuity business and a reduced proportion of more capital intensive fixed annuities. The average free surplus undiscounted payback period for business written in the six months to 30 June 2010 was two years (2009: two years).

In the UK, investment in new business decreased by 22 per cent from £45 million in 2009 to £35 million in 2010. This decrease compares with a two per cent increase in APE new business sales in the period. For each £1 million of free surplus invested we generated £2.8 million of post-tax new business contribution to embedded value (2009: £1.9 million) reflecting our value focus. The average free surplus undiscounted payback period for business written in the six months to 30 June 2010 was five years (2009: five years).

Note
1 Excludes Japan which ceased writing new business in 2010.

Holding company cash flow

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Net cash remitted by business units:			
UK Life fund paid to Group	202	284	284
Shareholder-backed business:			
Other UK paid to Group	67	–	189
Group invested in UK	(6)	(16)	(39)
Total shareholder-backed business	61	(16)	150
UK net	263	268	434
US paid to Group	–	–	39
Group invested in US	–	–	–
US net	–	–	39
Asia paid to Group			
Long-term business	99	80	181
Other operations	16	31	46
	115	111	227
Group invested in Asia			
Long-term business	(18)	(34)	(101)
Other operations	(30)	(56)	(86)
	(48)	(90)	(187)
Asia net	67	21	40
M&G paid to Group	80	44	93
PruCap paid to Group	50	42	82
Net remittances to Group from Business Units	460	375	688
Net interest paid	(110)	(92)	(214)
Tax received	55	30	71
Corporate activities	(63)	(65)	(163)
Total central outflows	(118)	(127)	(306)
Operating holding company* cash flow before dividend	342	248	382
Dividend paid net of scrip	(318)	(226)	(344)
Operating holding company* cash flow after dividend	24	22	38
Exceptional Items:			
Cash flow arising from sale of Taiwan agency business	–	(125)	(125)
Acquisition of UOB Life and related distribution agreements	(244)	–	–
Costs of terminated AIA transaction	(261)	–	–
IGD hedge costs	–	–	(235)
Other cash movements:			
Issue of hybrid debt, net of costs	–	380	822
Repayment of maturing debt	–	(249)	(249)
Receipts arising from foreign exchange movements on US$ hedging instruments	–	58	60
Total holding company cash flow	(481)	86	311
Cash and short-term investments at beginning of period	1,486	1,165	1,165
Foreign exchange movements	18	1	10
Cash and short-term investments at end of period	1,023	1,252	1,486

* Including central finance subsidiaries.

Holding company cash flow

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient net remittances from the businesses to cover the progressive dividend (after corporate costs) and maximising value for shareholders through the retention and the reinvestment of the free surplus generated at business unit level in the particularly profitable opportunities available to the Group given its established position in key life insurance markets. On this basis, the holding company cash flow statement at an operating level should generally balance to close to zero before exceptional cash flows.

Operating holding company cash flow for the first half of 2010 before dividend was £342 million, £94 million higher than 2009. After dividend, the operating holding company cash flow was positive £24 million, in line with last year.

The holding company received £460 million net remittances from business units in the first half of 2010, (including £344 million from long-term business operations up from £314 million in 2009), with increased contributions from the Asia, M&G and PruCap businesses. Contributions from UK with-profits were lower reflecting the bonus reductions effected at the start of 2009, culminating in a lower share for shareholders in that year and lower remittances in 2010. Our focused strategy in the UK has delivered positive net remittances to Group of £61 million from our shareholder-backed business.

Capital invested in business units in the first half of 2010 was £54 million compared to £106 million for 2009. Injections into Asia and the UK were both down from 2009 levels, reflecting reduced regulatory needs and our disciplined approach to investment.

Net interest paid in 2010 increased from £92 million to £110 million, following the additional debt raised in 2009.

Tax received in 2010 was £55 million, up from £30 million in 2009 reflecting higher UK taxable profits available for offset, and payments for corporate activities were £63 million (2009: £65 million).

After central costs, there was a net cash inflow before dividend of £342 million in 2010 compared to £248 million for 2009. The dividend paid net of scrip, was £318 million in 2010 compared to £226 million in 2009. The take-up of scrip dividends in 2010 was £26 million compared to £96 million for 2009.

In the first half of 2010, central cash resources funded the acquisition of UOB Life and related distribution agreements. In addition, £261 million relating to costs associated with the terminated AIA transaction were also funded from our central resources.

As a result of the transactions above, together with an £18 million foreign exchange revaluation gain, the overall holding company cash and short-term investment balances at 30 June 2010 decreased by £463 million to £1,023 million from the £1,486 million at 31 December 2009.

Balance sheet

Summary

	AER[8]		
	Half year 2010 £m	**Half year 2009 £m**	**Full year 2009 £m**
Investments	**222,599**	179,457	208,722
Holding company cash and short-term investments	**1,023**	1,252	1,486
Other	**19,790**	18,677	17,546
Total assets	**243,412**	199,386	227,754
Less: Liabilities			
Policyholder liabilities	**198,913**	165,047	186,398
Unallocated surplus of with-profits funds	**10,066**	7,061	10,019
	208,979	172,108	196,417
Less: shareholders' accrued interest in the long-term business	**(9,511)**	(9,000)	(9,002)
	199,468	163,108	187,415
Core structural borrowings of shareholders' financed operations (IFRS book value basis)	**3,482**	2,899	3,394
Other liabilities including non-controlling interest	**23,790**	19,659	21,672
Total liabilities and non-controlling interest	**226,740**	185,666	212,481
EEV basis net assets	**16,672**	13,720	15,273
Share capital and premium	**1,983**	1,966	1,970
IFRS basis shareholders' reserves	**5,178**	2,754	4,301
IFRS basis shareholders' equity	**7,161**	4,720	6,271
Additional EEV basis retained profit	**9,511**	9,000	9,002
EEV basis shareholders' equity (excluding non-controlling interest)	**16,672**	13,720	15,273

The following sections focus on key areas of interest in the balance sheet.

Investments

	Half year 2010				Full year 2009
	Participating Funds £m	**Unit-Linked and variable annuities £m**	**Shareholder-backed £m**	**Total Group £m**	**Total Group £m**
Debt securities	51,888	8,325	53,121	**113,334**	101,751
Equity	27,119	43,875	781	**71,775**	69,354
Property investments	9,169	717	1,474	**11,360**	10,905
Commercial mortgage loans	197	–	4,985	**5,182**	4,634
Other loans	1,875	–	2,530	**4,405**	4,120
Deposits	6,703	807	2,256	**9,766**	12,820
Other investments	4,153	90	2,534	**6,777**	5,138
Total	101,104	53,814	67,681	**222,599**	208,722

Total investments held by the Group at 30 June 2010 were £223 billion, of which £101 billion were held by participating funds, £54 billion by unit-linked funds and £68 billion by shareholder-backed operations. Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

Of the £68 billion investments related to shareholder-backed operations, £5.4 billion was held by Asia long-term business, £34.3 billion by Jackson and £24.5 billion by the UK long-term business respectively. In addition, £3.5 billion is held by our asset management and other operations.

The investments held by the shareholder-backed operations are predominantly debt securities, totalling £3.7 billion, £27.4 billion and £20.5 billion for Asia, the US and the UK long-term businesses respectively, of which 79 per cent, 95 per cent and 97 per cent are rated, either externally or internally, as investment grade. Included within debt securities of shareholder-backed operations are Tier 1 and Tier 2 bank holdings of £3.2 billion, of which Tier 1 holdings of UK bank securities is £114 million, with exposure being wholly within the UK long-term business. Within Tier 2, our exposure to UK banks is £0.8 billion, with exposure being £0.6 billion, £0.1 billion, and £0.1 billion for the UK long-term business, the US and other operations respectively.

In addition, £1.5 billion of debt securities was held by asset management and other operations, substantially all of which was managed by Prudential Capital.

Policyholder liabilities and unallocated surplus of with-profits funds

	Shareholder-backed business				
	Half year 2010				Half year 2009
	Asia £m	US £m	UK £m	Total £m	Total £m
At 1 January	13,050	48,311	38,700	**100,061**	92,189
Premiums	1,588	5,656	1,735	**8,979**	6,969
Surrenders	(621)	(1,767)	(632)	**(3,020)**	(3,362)
Maturities/Deaths	(58)	(418)	(1,055)	**(1,531)**	(1,385)
Net cash flows	**909**	**3,471**	**48**	**4,428**	2,222
Investment related items and other movements	(203)	(424)	1,896	**1,269**	2,446
Acquisition of UOB Life	464	–	–	**464**	–
Assumption changes	–	–	(64)	**(64)**	(63)
Disposal of Taiwan agency business	–	–	–	**–**	(3,508)
Foreign exchange translation difference	1,150	3,895	(30)	**5,015**	(7,530)
At 30 June	15,370	55,253	40,550	**111,173**	85,756
With-profits funds					
– Policyholder liabilities				**87,740**	79,291
– Unallocated surplus				**10,066**	7,061
Total at 30 June				**97,806**	86,352
Total policyholder liabilities including unallocated surplus at 30 June				**208,979**	172,108

Policyholder liabilities and unallocated surplus of with-profits funds

Policyholder liabilities related to shareholder-backed business grew by £11.1 billion from £100.1 billion at 31 December 2009 to £111.2 billion at 30 June 2010.

The increase reflects positive net cash flows (premiums less surrenders and maturities/deaths) of £4.4 billion in 2010 (2009: £2.2 billion), predominantly driven by strong inflows in the US (£3.5 billion) and Asia (£0.9 billion), as well as positive investment-related and other items of £1.3 billion (2009: £2.4 billion), primarily reflecting the growth in bond and property markets during the year.

Other movements include foreign exchange movements of £5.0 billion (2009: negative £7.5 billion) and an increase following the acquisition of UOB Life of £464 million.

During 2010, the unallocated surplus, which represents the excess of assets over policyholder liabilities for the Group's with-profit funds on a statutory basis remained flat from December 2009 to 30 June 2010 at £10.1 billion.

Shareholders' net borrowings and ratings

The Group's core structural borrowings at 30 June 2010 totalled £3.5 billion on an IFRS basis, compared with £3.4 billion at 31 December 2009. The movement of £0.1 billion mainly reflects foreign exchange movements in the period.

After adjusting for holding company cash and short-term investments of £1,023 million, net core structural borrowings at 30 June 2010 were £2.5 billion compared with £1.9 billion at 31 December 2009. The movement of £0.6 billion includes the movement in borrowings of £0.1 billion mentioned above and the use of £505 million of central resources to fund the acquisition of UOB Life and related distribution agreements and the terminated AIA transaction costs.

The Group operates a central treasury function, which has overall responsibility for managing our capital funding programme as well as our central cash and liquidity positions.

In addition to our core structural borrowings set out above, we also have in place an unlimited global commercial paper programme. As at 30 June 2010, we had issued commercial paper under this programme totalling £110 million, US$2,412 million, and EUR 721 million. The central treasury function also manages our £5,000 million medium-term note (MTN) programme covering both core and non-core borrowings. During January 2010, we raised non-core borrowings of £250 million from this programme. In April 2010 we refinanced an existing internal £200 million issue under the same programme. In total at 30 June 2010 the outstanding subordinated debt under the programme was £1,085 million, US$750 million and EUR 520 million, while the senior debt outstanding was £450 million and US$5 million. In addition, our holding company has access to £1.7 billion of committed revolving credit facilities, provided by 16 major international banks, expiring between 2011 and 2013; and an annually renewable £500 million committed securities lending liquidity facility. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2010. The commercial paper programme, the MTN programme, the committed revolving credit facilities and the committed securities lending liquidity facility are all available for general corporate purposes and to support the liquidity needs of our holding company and are intended to maintain a strong and flexible funding capacity.

Shareholders' net borrowings and ratings

Shareholders' net borrowings at 30 June 2010:

	AER[8] Half year 2010 £m			AER[8] Full year 2009 £m		
	IFRS basis	Mark-to-market value	EEV basis	IFRS basis	Mark-to-market value	EEV basis
Perpetual subordinated						
Capital securities (Innovative Tier 1)	1,533	(63)	1,470	1,422	(71)	1,351
Subordinated notes (Lower Tier 2)	1,234	89	1,323	1,269	103	1,372
	2,767	26	2,793	2,691	32	2,723
Senior debt						
2023	300	27	327	300	8	308
2029	249	(3)	246	249	(14)	235
Holding company total	3,316	50	3,366	3,240	26	3,266
Jackson surplus notes (Lower Tier 2)	166	16	182	154	4	158
Total	3,482	66	3,548	3,394	30	3,424
Less: Holding company cash and short-term investments	(1,023)	–	(1,023)	(1,486)	–	(1,486)
Net core structural borrowings of shareholder-financed operations	2,459	66	2,525	1,908	30	1,938

We manage the Group's core debt within a target level consistent with our current debt ratings. At 30 June 2010, the gearing ratio (debt, net of cash and short-term investments, as a proportion of EEV shareholders' funds plus debt) was 12.9 per cent, compared with 11.1 per cent at 31 December 2009. Prudential plc has strong debt ratings from Standard & Poor's, Moody's and Fitch. Prudential's long-term senior debt is rated A+ (negative watch), A2 (negative outlook) and A+ (negative watch) from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P1 and F1+ respectively.

The financial strength of PAC is rated AA (negative watch) by Standard & Poor's, Aa2 (negative outlook) by Moody's and AA+ (negative watch) by Fitch.

Jackson National Life's financial strength is rated AA (negative watch) by Standard & Poor's, A1 (negative outlook) by Moody's and AA (negative watch) by Fitch.

Financial position on defined benefit pension schemes

The Group currently operates three defined benefit schemes in the UK, of which by far the largest is the Prudential Staff Pension Scheme (PSPS) and two smaller schemes, Scottish Amicable (SAPS) and M&G.

Defined benefit schemes in the UK are generally required to be subject to a full actuarial valuation every three years, in order to assess the appropriate level of funding for schemes in relation to their commitments. The valuations of PSPS as at 5 April 2008 and SAPS as at 31 March 2008 were finalised in the second quarter of 2009. The valuation of the M&G pension scheme as at 31 December 2008 was finalised in January 2010. The valuation of PSPS demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. Accordingly, the total contributions to be made by the Group into the scheme, representing the annual accrual cost and deficit funding, has been reduced from the previous arrangement of £75 million per annum to £50 million per annum including £25 million for deficit funding, effective from July 2009. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations.

The actuarial valuation of SAPS as at 31 March 2008 demonstrated the scheme to be 91 per cent funded, representing a deficit of £38 million. Based on this valuation, deficit funding amounts of £7.3 million per annum designed to eliminate the actuarial deficit over a seven-year period are being made from July 2009.

The actuarial valuation of the M&G pension scheme as at 31 December 2008 demonstrated the scheme to be 76 per cent funded, representing a deficit of £51 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a five-year period are being made from January 2010 of £14.1 million per annum for the first two years and £9.3 million per annum for the subsequent three years.

The valuation basis under IAS 19 for the Group financial statements differs markedly from the full triennial actuarial valuation basis. In particular, reflecting the trust deed provisions over distributions, the underlying surplus of £309 million for PSPS is not recognised. As at 30 June 2010, on the Group IFRS statement of financial position, the shareholders' share of the liabilities for these UK schemes amounted to a £101 million liability net of related tax relief. The total share attributable to the PAC with-profits fund amounted to a liability of £112 million net of related tax relief.

Changes to Group holdings during the period

During the first half of 2010 we completed the acquisition of UOB Life for total cash consideration, after post-tax completion adjustments currently estimated at SGD 67 million (£32 million), of SGD 405 million (£220 million), giving rise to goodwill of £145 million. This acquisition accompanied a long-term strategic partnership with UOB facilitating distribution of Prudential's life insurance products through UOB's bank branches in Singapore, Indonesia and Thailand.

We also announced the acquisition of Standard Life Healthcare by our Pru Health joint venture partner Discovery, and the intention to combine this with the existing Pru Health business. This leads to a reduction in our shareholding in the combined businesses from 50 per cent to 25 per cent and is effective from 1 August, the date of the acquisition.