

FINANCIAL STATEMENTS

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European Embedded Value (EEV) basis results

Operating profit based on longer-term investment returns¹

Results analysis by business area

	Note	2010 £m	2009 £m	
		Half year	Half year ^{iv}	Full year ^{iv}
Asian operations				
New business:				
Excluding Japan	2	396	286	725
Japan ^v		(1)	(9)	(12)
Total		395	277	713
Business in force	3	241	124	392
Long-term business		636	401	1,105
Asset management		36	21	55
Development expenses		(3)	(5)	(6)
Total		669	417	1,154
US operations				
New business	2	361	292	664
Business in force	3	306	209	569
Long-term business		667	501	1,233
Broker-dealer and asset management		15	2	4
Total		682	503	1,237
UK operations				
New business	2	135	122	230
Business in force	3	314	284	640
Long-term business		449	406	870
General insurance commission		23	27	51
Total UK insurance operations		472	433	921
M&G		143	102	238
Total		615	535	1,159
Other income and expenditure				
Investment return and other income		5	13	22
Interest payable on core structural borrowings		(129)	(84)	(209)
Corporate expenditure:				
Group Head Office		(86)	(74)	(146)
Asia Regional Head Office		(27)	(23)	(57)
Charge for share-based payments for Prudential schemes		(3)	(11)	(5)
Charge for expected asset management margins ⁱⁱ		(22)	(16)	(38)
Total		(262)	(195)	(433)
Solvency II implementation costs		(22)	–	–
Restructuring costs ⁱⁱⁱ		(5)	(14)	(27)
Operating profit based on longer-term investment returns^v		1,677	1,246	3,090
Analysed as profits (losses) from:				
New business:				
Excluding Japan	2	892	700	1,619
Japan ^v		(1)	(9)	(12)
Total		891	691	1,607
Business in force	3	861	617	1,601
Long-term business		1,752	1,308	3,208
Asset management		194	125	297
Other results		(269)	(187)	(415)
Total		1,677	1,246	3,090

Operating profit based on longer-term investment returns¹ continued

Notes

- i EEV basis operating profit based on longer-term investment returns excludes short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. In addition, in half year 2010 the Company incurred costs in relation to the termination of the agreement for the combination of Prudential with AIA Group Limited which have been shown separately from operating profit based on longer-term investment returns. In 2009, during the severe equity market conditions experienced in the first quarter, coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail events on the Group IGD capital position. These contracts were in addition to the Group's regular operational hedging programmes. It also disposed of its Taiwan agency business. The effect of these items has been shown separately from operating profit based on longer-term investment returns. The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout these statements.
- ii The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margins for the period on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.
- iii Restructuring costs comprise the charge of £(3) million recognised on an IFRS basis and an additional £(2) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund.
- iv In June 2009, the Group completed the sale of its Taiwan agency business. In order to facilitate comparisons of the results of the Group's retained businesses the effect of disposal and the results of the Taiwan agency business are shown separately.
- v New business profits for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.
- vi Exchange translation
The comparative results have been prepared using previously reported exchange rates.

Summary consolidated income statement

	Note	2010 £m		2009 £m	
		Half year	Half year	Full year	Full year
Operating profit based on longer-term investment returns					
Asian operations		669	417		1,154
US operations		682	503		1,237
UK operations:					
UK insurance operations		472	433		921
M&G		143	102		238
		615	535		1,159
Other income and expenditure		(262)	(195)		(433)
Solvency II implementation costs		(22)	–		–
Restructuring costs		(5)	(14)		(27)
Operating profit based on longer-term investment returns		1,677	1,246		3,090
Short-term fluctuations in investment returns	5	(227)	(707)		351
Mark to market value movements on core borrowings	9	(42)	(108)		(795)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		(25)	(71)		(84)
Effect of changes in economic assumptions and time value of cost of options and guarantees	6	(52)	(384)		(910)
Costs of terminated AIA transaction	4	(377)	–		–
Profit on sale and results for Taiwan agency business	17	–	91		91
Profit from continuing operations before tax (including actual investment returns)		954	67		1,743
Tax attributable to shareholders' profit	11	(140)	(52)		(481)
Profit from continuing operations after tax before non-controlling interests		814	15		1,262
Discontinued operations (net of tax)	1c	–	–		(14)
Profit for the period		814	15		1,248
Attributable to:					
Equity holders of the Company		812	14		1,245
Non-controlling interests		2	1		3
Profit for the period		814	15		1,248

Earnings per share (in pence)

	Note	2010		2009	
		Half year	Half year	Full year	Full year
From operating profit based on longer-term investment returns, after related tax and non-controlling interests of £1,210m (half year 2009: £881m; full year 2009: £2,221m)	12	48.0p	35.4p		88.8p
Based on profit after tax and non-controlling interests of £812m (half year 2009: £14m; full year 2009: £1,245m)	12	32.2p	0.6p		49.8p

Dividends per share (in pence)

	2010		2009	
	Half year	Half year	Full year	Full year
Dividends relating to reporting period:				
Interim dividend (2010 and 2009)	6.61p	6.29p		6.29p
Second interim dividend (2009)	–	–		13.56p
Total	6.61p	6.29p		19.85p
Dividends declared and paid in reporting period:				
Current year interim dividend	–	–		6.29p
Second interim/final dividend for prior year	13.56p	12.91p		12.91p
Total	13.56p	12.91p		19.20p

Movement in shareholders' equity (excluding non-controlling interests)

	Note	2010 £m	2009 £m	
		Half year	Half year	Full year
Profit for the period attributable to equity shareholders		812	14	1,245
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		806	(1,098)	(761)
Related tax		(8)	(6)	11
Dividends		(344)	(322)	(481)
New share capital subscribed		39	96	141
Reserve movements in respect of share-based payments		15	18	29
Treasury shares:				
Movement in own shares held in respect of share-based payment plans		8	7	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		4	(8)	(3)
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		103	97	205
Related tax		(36)	(34)	(72)
Net increase (decrease) in shareholders' equity	10	1,399	(1,236)	317
Shareholders' equity at beginning of period (excluding non-controlling interests)	710	15,273	14,956	14,956
Shareholders' equity at end of period (excluding non-controlling interests)	710	16,672	13,720	15,273

Comprising:	Note	30 Jun 2010 £m			30 Jun 2009 £m			31 Dec 2009 £m		
		Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Asian operations:										
Net assets of operation		6,736	180	6,916	5,164	144	5,308	5,781	161	5,942
Acquired goodwill		235	61	296	80	61	141	80	61	141
		6,971	241	7,212	5,244	205	5,449	5,861	222	6,083
US operations:										
Net assets of operation		4,984	111	5,095	3,852	85	3,937	4,122	95	4,217
Acquired goodwill		–	16	16	–	16	16	–	16	16
		4,984	127	5,111	3,852	101	3,953	4,122	111	4,233
UK insurance operations:										
Net assets of operation		5,442	17	5,459	4,658	19	4,677	5,439	37	5,476
M&G										
Net assets of operation		–	190	190	–	178	178	–	173	173
Acquired goodwill		–	1,153	1,153	–	1,153	1,153	–	1,153	1,153
		–	1,343	1,343	–	1,331	1,331	–	1,326	1,326
		5,442	1,360	6,802	4,658	1,350	6,008	5,439	1,363	6,802
Other operations:										
Holding company net borrowings at market value	9	–	(2,343)	(2,343)	–	(861)	(861)	–	(1,780)	(1,780)
Other net liabilities		–	(110)	(110)	–	(829)	(829)	–	(65)	(65)
		–	(2,453)	(2,453)	–	(1,690)	(1,690)	–	(1,845)	(1,845)
Shareholders' equity at end of period (excluding non-controlling interests)		17,397	(725)	16,672	13,754	(34)	13,720	15,422	(149)	15,273
Representing:										
Net assets		17,162	(1,955)	15,207	13,674	(1,264)	12,410	15,342	(1,379)	13,963
Acquired goodwill		235	1,230	1,465	80	1,230	1,310	80	1,230	1,310
		17,397	(725)	16,672	13,754	(34)	13,720	15,422	(149)	15,273

	30 Jun 2010	30 Jun 2009	31 Dec 2009
Net asset value per share (in pence)			
Based on EEV basis shareholders' equity of £16,672m (half year 2009: £13,720m; full year 2009: £15,273m)	657p	544p	603p
Number of issued shares at period end (millions)	2,539	2,524	2,532
Annualised return on embedded value*	16%	12%	15%

*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' equity. Half year profits are annualised by multiplying by two.

Summary statement of financial position

	Note	2010 £m	2009 £m	
		30 Jun	30 Jun	31 Dec
Total assets less liabilities, before deduction for insurance funds		214,771	175,714	201,501
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(207,610)	(170,994)	(195,230)
Less shareholders' accrued interest in the long-term business		9,511	9,000	9,002
		(198,099)	(161,994)	(186,228)
Total net assets	7,10	16,672	13,720	15,273
Share capital		127	126	127
Share premium		1,856	1,840	1,843
IFRS basis shareholders' reserves		5,178	2,754	4,301
Total IFRS basis shareholders' equity	7	7,161	4,720	6,271
Additional EEV basis retained profit	7	9,511	9,000	9,002
Shareholders' equity (excluding non-controlling interests)	7,10	16,672	13,720	15,273

*Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

1 Basis of preparation, methodology and accounting presentation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The EEV basis results for 2010 and 2009 half years are unaudited. The 2009 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2009. The supplement included an unqualified audit report from the auditors.

a Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.

As regards PSPS, the deficit funding liability attaching to the shareholder-backed business is included in the total for Other operations, reflecting the fact that the deficit funding is being paid for by the parent company, Prudential plc.

b Methodology

i Embedded value

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- present value of future shareholder cash flows from in-force covered business (value of in-force business), less a deduction for the cost of locked-in required capital;
- locked-in required capital; and
- shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 1c(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 1c(i).

Valuation of new business

The contribution from new business represents profits determined by applying operating assumptions as at the end of the period.

In determining the new business contribution for UK immediate annuity and lifetime mortgage business, which is interest rate sensitive, it is appropriate to use assumptions reflecting point-of-sale market conditions, consistent with how the business is priced. For other business within the Group, end of period economic assumptions are used.

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period and shareholders' equity as they arise.

The results for any covered business conceptually reflects the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that for debt securities backing liabilities the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that are broadly speaking held for the longer-term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

Value of in-force business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the period.

Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as required capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (net of tax) on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

Financial options and guarantees

Nature of options and guarantees in Prudential's long-term business

Asian operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in the PAC Hong Kong branch, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

Non-participating long-term products are the only ones where the insurer is contractually obliged to provide guarantees on all benefits. Whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequent with market conditions are written in the Korean life operations and also are a feature of the UOB in-force book acquired in 2010. The amounts in these operations are to a much lesser extent than the policies written by the Taiwan Life business which was sold in the first half of 2009, as detailed in note 17.

US operations (Jackson)

The principal options and guarantees in Jackson are associated with the fixed annuity and Variable Annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.5 per cent to 5.5 per cent (for all periods for which results are prepared in this report), depending on the particular product, jurisdiction where issued, and date of issue. At half year 2010, 83 per cent (half year 2009: 84 per cent; full year 2009: 82 per cent) of the account values on fixed annuities relates to policies with guarantees of 3.0 per cent or less. The average guarantee rate for half year 2010 is 2.9 per cent (half year 2009: 3.0 per cent; full year 2009: 3.0 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts where it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable at specified dates during the accumulation period (Guaranteed Minimum Withdrawal Benefit (GMWB)) and minimum accumulation, death and income benefits. Jackson hedges these risks using equity options and futures contracts.

These guarantees generally protect the policyholder's value in the event of poor equity market performance.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns would be of a similar nature to those described above for fixed annuities.

UK insurance operations

The only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund and SAIF.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The with-profits fund held a provision on the Pillar 1 Peak 2 basis of £31 million at 30 June 2010 (30 June 2009: £37 million; 31 December 2009: £31 million) to honour guarantees on a small amount of guaranteed annuity option products.

Beyond the generic features and the provisions held in respect of guaranteed annuities described above, there are very few explicit options or guarantees of the with-profits fund such as minimum investment returns, surrender values, or annuity values at retirement and any granted have generally been at very low levels.

The Group's main exposure to guaranteed annuity options in the UK is through SAIF and a provision on the Pillar 1 Peak 2 basis of £321 million (30 June 2009: £344 million; 31 December 2009: £284 million) was held in SAIF at 30 June 2010 to honour the guarantees.

1 Basis of preparation, methodology and accounting presentation continued**Time value**

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the value of the in-force business including the cost of capital. A deterministic valuation of the in-force business is also derived using consistent assumptions and the time value of the financial options and guarantees is derived as the difference between the two.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in note 16.

ii Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models but, when applying the EEV Principles, Prudential does not take credit for the significant diversification benefits that exist within the Group. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. For shareholder-backed business the following capital requirements apply:

- Asian operations: the level of required capital has been set at the higher of local statutory requirements and the economic capital requirement;
- US operations: the level of required capital has been set to an amount at least equal to 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set at the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole, which for half year 2010 and 2009 was Pillar I.

iii Allowance for risk and risk discount rates**Overview**

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set equal to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable. The majority of non-market and non-credit risks are considered to be diversifiable.

Market risk allowance

The allowance for market risk represents the multiple of beta x equity risk premium. Except for UK shareholder-backed annuity business (as explained below) such an approach has been used for all of the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product specific beta.

Product level betas are calculated each year. They are combined with the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for credit risk is to cover:

- expected long-term defaults;
- credit risk premium (to reflect the volatility in default levels); and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best-estimate returns and through the market risk allowance described above. However, for those businesses which are largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below.

Asian operations

For Asian operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly no additional allowance for credit risk is required.

US business

For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

For half year 2010 and full year 2009 the risk discount rate incorporates an additional allowance for credit risk premium and short-term defaults for general account business of 150 basis points and for variable annuity business of 30 basis points to reflect the fact that a proportion of the variable annuity business is allocated to the general account.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products. For half year 2009 and previously, allowance for these elements of credit risk was recognised only in the risk margin reserve charge and to the extent implicit within the market risk allowance.

UK business

a Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on Prudential's assessment of the expected return on the assets backing the annuity liabilities after allowing for expected long-term defaults, credit risk premium and short-term downgrades and defaults. For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for expected long-term defaults and, where necessary, an additional allowance for an element of short-term downgrades and defaults to bring the allowance in the earned rate up to best estimate levels. The allowances for credit risk premium and additional short-term default allowance are incorporated into the risk margin included in the discount rate.

b With-profit fund PAL annuity business

For UK annuity business written by PAL the basis for determining the appropriate aggregate allowance for credit risk has been aligned with that of UK shareholder-backed annuity business with effect from full year 2009, so as also to include provision for short-term defaults and credit risk premium. The allowance for credit risk in PAL is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund. For half year 2009 the allowance for credit risk was for best estimate defaults.

c With-profit fund holdings of debt securities

The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. For the half year 2010 and full year 2009 results the assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

For the half year 2009 results the Company's projected rate of return on debt securities of the with-profits fund was determined assuming levels of credit spreads, longer-term default allowance and discount rate methodology that were unchanged relative to those used at 31 December 2007.

Allowance for non-diversifiable non-market risks

Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

For UK shareholder-backed annuity business, a margin of 100 basis points is used to cover the non-diversifiable non-market risks associated with the business. For the Group's other business a margin of 50 basis points is generally applied with, where necessary, an additional allowance for emerging market risk. The additional 50 basis points for UK annuities business reflects the longevity risk which is of particular relevance.

iv Management actions

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management.

v With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In those few extreme scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profit funds of the Group's Asian operations.

1 Basis of preparation, methodology and accounting presentation continued**vi Pension costs**

The Group operates three defined benefit schemes in the UK. The principal scheme is the Prudential Staff Pension Scheme (PSPS). The other two, much smaller, schemes are the Scottish Amicable and M&G schemes. There is also a small scheme in Taiwan, but as part of the sale of the Taiwan agency business completed in June 2009, the Group settled the majority of the obligations under the scheme as a significant number of employees were transferred out.

Under IFRS the surpluses or deficits attaching to these schemes are accounted for in accordance with the provisions of IAS 19 that apply the principles of IFRIC 14, providing guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset.

Under the EEV basis the IAS 19 basis surpluses (to the extent not restricted under IFRIC 14) or deficits are initially allocated in the same manner. The shareholders' 10 per cent interest in the PAC with-profits fund estate is determined after inclusion of the portion of the IAS 19 basis surpluses or deficits attributable to the fund. Adjustments under EEV in respect of accounting for surpluses or deficits on the Scottish Amicable Pension Scheme are reflected as part of UK operations and for other defined benefit schemes the adjustments are reflected as part of 'Other operations', as shown in note 7.

Separately, the projected cash flows of in-force covered business include the cost of contributions to the defined benefit schemes for future service based on the contribution basis applying to the schemes at the time of the preparation of the results.

vii Debt capital

Core structural debt liabilities are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the difference, compared to the IFRS carrying value. Accordingly, no deferred tax credit or charge is recorded in the results for the reporting period in respect of the mark to market value adjustment.

viii Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the period. Foreign currency assets and liabilities have been translated at period-end rates of exchange. The purpose of translating the profits and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

c Accounting presentation**i Analysis of profit before tax**

To the extent applicable, presentation of the EEV profit for the period is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results including longer-term investment returns and, except as explained in note (iv) below, the unwind of discount on the value of in-force business. Operating results include the impact of routine changes of estimates and non-economic assumptions. Non-operating results comprise short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. In half year 2010 the company incurred costs in relation to the termination of the agreement for the combination of Prudential with AIA Group Limited which have been shown separately from operating profit based on longer-term investment returns. In 2009, during the severe equity market conditions experienced in the first quarter, coupled with historically high equity volatility, the Group incurred non-recurrent costs from an exceptional short-dated hedge to protect against potential tail events on the Group IGD capital position in addition to regular operational hedging programmes. These costs have been shown separately within short-term fluctuations in investment returns for half year and full year 2009. Also, in June 2009, the Group completed the disposal of the Taiwan agency business. The effect of this disposal and the results of the Taiwan agency business have been presented separately outside of the operating result.

ii Operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, values of assets at the beginning of the reporting period are adjusted to remove the effects of short-term market movements.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of year-end risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in force adjusted to reflect period-end projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may from time to time take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is reflected in the result for the year. In general, the effect is booked in operating results.

iii Effect of changes in operating assumptions

Operating profits include the effect of changes to operating assumptions on the value of in-force at the end of the period. For presentational purposes, the effect of change is delineated to show the effect on the opening value of in-force with the experience variance being determined by reference to the end of period assumptions.

iv Unwind of discount and other expected returns

The unwind of discount and other expected returns is determined by reference to the value of in-force business, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period.

For UK insurance operations the amount included within operating results based on longer-term returns represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the unwind of discount on additional value representing the shareholders' share of smoothed surplus assets retained within the PAC with-profits fund (as explained in note 1b(v) above), and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed.

v Pension costs

Profit before tax

Movements on the shareholders' share of surpluses (to the extent not restricted by IFRIC 14) and deficits of the Group's defined benefit pension schemes adjusted for contributions paid in the year are recorded within the income statement. Consistent with the basis of distribution of bonuses and the treatment of the estate described in note 1b(iv) and (v), the shareholders' share incorporates 10 per cent of the proportion of the financial position attributable to the PAC with-profits fund. The financial position is determined by applying the requirements of IAS 19.

Actuarial and other gains and losses

For pension schemes in which the IAS 19 position reflects the difference between the assets and liabilities of the scheme, actuarial and other gains and losses comprise:

- the difference between actual and expected return on the scheme assets;
- experience gains and losses on scheme liabilities;
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities; and
- for pension schemes where the IAS 19 position reflects a deficit funding obligation, actuarial and other gains and losses reflect the movement in estimates of deficit funding requirements.

These items are recorded in the income statement but, consistent with the IFRS basis of presentation, are excluded from operating results.

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

Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions and the time value of cost of options and guarantees resulting from changes in economic factors are recorded in non-operating results.

vii Taxation

The profit for the period for covered business is in most cases calculated initially at the post-tax level. The post-tax profit for covered business is then grossed up for presentation purposes at the effective rates of tax applicable to the countries and periods concerned. In the UK, the effective rate is the currently enacted UK corporation tax rate of 28 per cent. For Jackson, the US federal tax rate of 35 per cent is applied to gross up movements on the value of in-force business. Effects on statutory tax for the period affect the overall tax rate. For Asia, similar principles apply subject to the availability of taxable profits.

viii Inter-company arrangements

The EEV results for covered business incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF (which is not covered business) to PRIL. In addition, the analysis of free surplus and value of in-force business takes account of the impact of contingent loan arrangements between Group companies.

ix Foreign exchange rates

Foreign currency results have been translated as discussed in note 1b(viii), for which the principal exchange rates are as follows:

Local currency: £	Closing rate at 30 Jun 2010	Average for the 6 months to 30 Jun 2010	Closing rate at 30 Jun 2009	Average for the 6 months to 30 Jun 2009	Closing rate at 31 Dec 2009	Average for 2009
Hong Kong	11.65	11.85	12.76	11.57	12.52	12.14
Indonesia	13,562.15	14,007.05	16,810.22	16,449.33	15,171.52	16,173.28
Japan	132.39	139.43	158.90	142.71	150.33	146.46
Malaysia	4.84	5.04	5.79	5.35	5.53	5.51
Singapore	2.09	2.13	2.38	2.23	2.27	2.27
Taiwan	48.07	48.61	54.03	50.01	51.65	51.65
US	1.50	1.53	1.65	1.49	1.61	1.57

x Discontinued operations

The charge of £(14) million in full year 2009, which is net of nil tax, reflects completion adjustments for a previously disposed business.

2 Analysis of new business contribution^v

	Period ended 30 Jun 2010						
	New business premiums		Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	Pre-tax new business contribution	New business margin	
	Single £m	Regular £m	note 1 £m	note 1 £m	notes ii, iii £m	(APE) %	(PVNBP) %
Asian operations ^{note vi}	430	670	713	3,316	396	56	11.9
US operations ^{note iv}	5,493	11	560	5,569	361	64	6.5
UK insurance operations	2,438	138	382	3,081	135	35	4.4
Total	8,361	819	1,655	11,966	892	54	7.5

	Period ended 30 Jun 2009						
	New business premiums		Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	Pre-tax new business contribution	New business margin	
	Single £m	Regular £m	note 1 £m	note 1 £m	notes ii, iii £m	(APE) %	(PVNBP) %
Asian operations ^{note vi}	327	492	524	2,551	286	55	11.2
US operations ^{note iv}	3,798	12	392	3,889	292	74	7.5
UK insurance operations	2,451	131	376	3,062	122	32	4.0
Total	6,576	635	1,292	9,502	700	54	7.4

	Year ended 31 Dec 2009						
	New business premiums		Annual premium and contribution equivalents (APE)	Present value of new business premiums (PVNBP)	Pre-tax new business contribution	New business margin	
	Single £m	Regular £m	note 1 £m	note 1 £m	notes ii, iii £m	(APE) %	(PVNBP) %
Asian operations ^{note vi}	785	1,131	1,209	5,982	725	60	12.1
US operations ^{note iv}	8,885	24	912	9,048	664	73	7.3
UK insurance operations	4,768	246	723	5,902	230	32	3.9
Total	14,438	1,401	2,844	20,932	1,619	57	7.7

	New business margin (APE) %		
	2010 Half year	2009 Half year	2009 Full year
Asian operations: ^{note vi}			
China	44	45	50
Hong Kong	72	76	70
India	20	19	19
Indonesia	71	61	73
Korea	45	36	44
Taiwan	19	15	18
Other	74	84	87
Weighted average for all Asian operations	56	55	60

Notes

- i New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP) and are calculated as the ratio of the value of new business profit to APE and PVNBP. APEs are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.
- ii In determining the EEV basis value of new business written in the period the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.
- iii New business contributions represent profits determined by applying operating assumptions as at the end of the period. In general, the use of point-of-sale or end of period economic assumptions is not significant in determining the new business contribution for different types of business and across financial reporting periods. However, to obtain proper measurement of the new business contribution for business which is interest rate sensitive, it is appropriate to use assumptions reflecting point-of-sale market conditions, consistent with how the business was priced. In practice, the only area within the Group where this has a material effect is for UK shareholder-backed annuity and lifetime mortgage business. For other business within the Group end of period economic assumptions are used.
- iv The decrease in new business margin for US operations from half year and full year 2009 to half year 2010 primarily reflects the changes to the assumed new business spread margins for Fixed Annuity and Fixed Index Annuity business as described in note 16b.
- v The half year and full year 2009 comparatives shown in the table are translated at average exchange rates for the period.
- vi The tables above include new business for the Taiwan bank distribution operation. New business excludes the Taiwan Agency business, which was sold in June 2009 (as explained in note 17) and the Japanese insurance operations, in which the Company ceased selling new business from 15 February 2010.

3 Operating profit from business in force

Group summary

	Period ended 30 Jun 2010 £m			
	Asian operations note i	US operations note ii	UK operations note iii	Total
Unwind of discount and other expected returns	300	181	292	773
Effect of changes in operating assumptions	(14)	3	–	(11)
Experience variances and other items	(45)	122	22	99
Total	241	306	314	861

	Period ended 30 Jun 2009 £m			
	Asian operations note i	US operations note ii	UK operations note iii	Total
Unwind of discount and other expected returns	248	142	291	681
Effect of changes in operating assumptions	(64)	(13)	–	(77)
Experience variances and other items	(60)	80	(7)	13
Total	124	209	284	617

	Year ended 31 Dec 2009 £m			
	Asian operations note i	US operations note ii	UK operations note iii	Total
Unwind of discount and other expected returns	489	344	588	1,421
Effect of changes in operating assumptions	(12)	101	–	89
Experience variances and other items	(85)	124	52	91
Total	392	569	640	1,601

Notes

Analysis by business unit

i Asian operations

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Unwind of discount and other expected returns ^a	300	248	489
Effect of changes in operating assumptions:			
Mortality and morbidity ^b	(2)	–	26
Expense ^c	10	(9)	(32)
Persistency ^d	(8)	(60)	(78)
Other ^e	(14)	5	72
	(14)	(64)	(12)
Experience variances and other items:			
Mortality and morbidity ^f	28	21	52
Expense ^g	(31)	(31)	(43)
Persistency ^h	(41)	(47)	(76)
Other	(1)	(3)	(18)
	(45)	(60)	(85)
	241	124	392

Notes

- a The increase in unwind of discount and other expected returns from £248 million for half year 2009 to £300 million for half year 2010 mainly arises from the growth in the in-force book.
- b The favourable effect of £26 million in full year 2009 for mortality and morbidity assumption changes primarily arises in Indonesia of £24 million reflecting recent experience.
- c The credit of £10 million in half year 2010 for expense assumption changes primarily arises in Vietnam of £9 million. The charge of £(32) million in full year 2009 for strengthened expense assumptions arises principally in Hong Kong of £(23) million with the balance across the regions.
- d The charge of £(8) million in half year 2010 for the effect of changes in persistency assumptions arises in India for changes in the paid-up assumption on linked business. The negative effects of the change in persistency assumptions of £(60) million in half year 2009 and £(78) million in full year 2009 are mainly a direct consequence of the impact on policyholders' savings behaviour from adverse economic and market conditions, arising mostly with investment related products, principally in Korea (half year 2009: £(23) million; full year 2009: £(25) million), and Hong Kong (half year 2009: £(14) million; full year 2009: £(12) million) and also in Indonesia in full year 2009 of £(24) million.
- e The effect of other assumption changes for full year 2009 of £72 million comprises the one-off positive impact of £69 million for altered projected net of tax cash flows arising from a regulatory reclassification of health and protection products in Hong Kong, a credit of £13 million for the effect of altered application of the Group's EEV methodology and a net charge of £(10) million for other items. The £13 million effect comprises adjustments for asset management margins in Indonesia and Korea of £37 million and a charge of £(24) million to better align the assumed capital requirement with internal management and pricing bases, primarily in China, Indonesia, Philippines and Vietnam, and other minor adjustments with a neutral net effect.

3 Operating profit from business in force continued

- f The favourable effects of £28 million for half year 2010 (half year 2009: £21 million; full year 2009: £52 million) relating to mortality and morbidity experience variances reflect better than expected experience across the territories.
- g The negative expense experience variance of £(31) million for half year 2010 and £(43) million in full year 2009 arises across the territories, including Korea of £(9) million for half year 2010 and £(10) million for full year 2009, which reflect the lower level of sales in both periods and in Taiwan following the sale of the Agency business, for which the negative variances are £(5) million and £(8) million respectively. The charge for half year 2009 of £(31) million primarily arises from small negative expense variances across most territories reflecting the lower level of sales in the period.

Also included for all periods are expense overruns for operations which are at a relatively early stage of development, for which actual expenses are in excess of those factored into the product pricing. This represents a charge of £(12) million for half year 2010 and £(16) million for full year 2009.

- h The negative persistency experience variance of £(41) million in half year 2010 principally arises in India of £(12) million, primarily relating to higher paid-ups and surrenders on unit-linked business and in Indonesia with an impact of £(11) million, which in part reflects adverse first year lapse experience. Also included is a charge of £(8) million in Malaysia, reflecting higher partial withdrawal for unit-linked business as a result of the significant rise in the local equity market and a charge of £(6) million in Korea, for which the improvement from 2009 levels reflects the implementation of persistency improvement programmes in 2010. The charge of £(47) million in half year 2009 relating to negative persistency experience mainly arises as customers have withdrawn from investment-related products (for which assumptions have been strengthened as explained above), including a charge in Korea of £(18) million. The charge of £(76) million in full year 2009 relating to negative persistency experience arises across the region with the largest impacts in Korea (£(29) million), India (£(11) million) and Japan (£(9) million).

ii US operations

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Unwind of discount and other expected returns ^a	181	142	344
Effect of changes in operating assumptions:			
Guaranteed Minimum Withdrawal Benefit (GMWB) policyholder behaviour ^b	–	–	156
Mortality ^c	10	35	33
Variable Annuity (VA) fees ^d	27	(14)	(13)
Other ^e	(34)	(34)	(75)
	3	(13)	101
Experience variances and other items:			
Spread experience variance ^f	61	4	(3)
Amortisation of interest-related realised gains and losses ^g	47	34	59
Other ^g	14	42	68
	122	80	124
	306	209	569

Notes

- a The increase in unwind of discount and other expected returns from £142 million for half year 2009 to £181 million for half year 2010 mainly arises from the growth in the in-force book and increase in the weighted risk discount rate.
- b The positive impact of the change in GMWB policyholder behaviour assumptions of £156 million for full year 2009 reflects the altered assumptions relating to the utilisation of withdrawal features available to policyholders on VA contracts which have been modified to take account of the more recent experience of policyholder behaviour when benefits are 'in the money'. Previously, policyholder behaviour for the utilisation of GMWB was assumed to be largely driven by the extent to which benefits were in the money. For full year 2009, the assumption has been altered to take account of recent experience which shows that the attained age of the policyholder is the key factor in determining utilisation levels.
- c The credit of £10 million for updates to mortality assumptions in half year 2010 represents a credit of £29 million for business other than variable annuity reflecting recent experience, partially offset by a negative effect on variable annuity business of £(19) million for a change in the modelling of mortality rates. The £35 million credit for mortality in half year 2009 and the £33 million credit for mortality in full year 2009 primarily reflects lower mortality rates for the Life of Georgia business, based upon actual experience since the acquisition of the business in 2005.
- d The effect of the change of assumption for VA fees represents the capitalised value of the change in the projected level of policyholder advisory fees, which vary according to the size and mix of VA funds. The credit of £27 million for half year 2010 reflects an increase in the projected level of fees paid by policyholders, according to the current fund mix. The negative effect of the change in half year and full year 2009 of £(14) million and £(13) million respectively represents a reduction in the level of fees.
- e The charge of £(34) million for other operating assumption changes in half year 2010 includes a credit of £4 million for the overall effect of changes to persistency assumptions and the net effect of a number of items including a charge of £(19) million for the altered projection of life reserves run-off. The charge of £(34) million for other operating assumption changes for half year 2009 includes a charge for the effect of changes in persistency assumptions of £(56) million reflecting £(30) million for an increase in the assumed utilisation of the partial withdrawal option on Variable and Fixed Annuity business, and £(26) million for the effect of other altered lapse rates, in line with experience. The effect of other changes in assumptions in full year 2009 of £(75) million primarily represents the negative impact of changes in persistency assumptions of £(53) million, reflecting an increase in the assumed utilisation of the partial withdrawal option on Variable and Fixed Annuity business of £(29) million and £(24) million for the effect of other altered lapse rates, in line with experience.
- f The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. Spread experience variance is better assessed in the context of both spread and amortisation of interest-related realised gains and losses. Amortisation of interest-related gains and losses reflects the same treatment applied to the supplementary analysis of IFRS profit. When bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits. The net effect on the EEV results of these two items for half year 2010 is a credit of £108 million (half year 2009: £38 million; full year 2009: £56 million) with half year 2010 primarily reflecting income from portfolio duration management in the period of £48 million. The increase in amortisation of interest-related realised gains and losses from half year 2009 of £34 million to £47 million in half year 2010 reflects the increased level of realised gains in the second half of 2009.
- g The credit of £14 million for other experience variances for half year 2010 and credit of £42 million for half year 2009 primarily relate to favourable expense, mortality and persistency experience variances. The credit of £68 million for other items for full year 2009 primarily represents favourable expense experience variance of £40 million relating to marketing expenses and positive mortality experience of £32 million primarily relating to life products.

iii UK insurance operations

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Unwind of discount and other expected returns	292	291	588
Other items ^{note}	22	(7)	52
	314	284	640

Note

Other items for half year 2010 of a credit of £22 million mainly relates to changes in the proportion married assumption used within the valuation of immediate annuity business. For full year 2009, other items of a credit of £52 million includes a positive £22 million for the effects of rebalancing the UK annuity business asset portfolio backing the liabilities to policyholders arising from the altered value arising from the revised projected yield and allowances for default risk.

4 Costs of terminated AIA transaction

The following costs were incurred in relation to the proposed, and now terminated, transaction to purchase AIA Group Limited and related rights issue.

	2010 Half year £m
Termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
Total costs before tax	377
Associated tax relief	(93)
Total costs after tax	284

5 Short-term fluctuations in investment returns

	2010 Half year £m	2009 £m	
		Half year	Full year
Insurance operations:			
Asia ^{note i}	(21)	101	437
US ^{note ii}	(140)	(304)	(401)
UK ^{note iii}	(78)	(363)	445
Other operations:			
IGD hedge costs ^{note iv}	–	(216)	(235)
Other ^{note v}	12	75	105
Total	(227)	(707)	351

Notes

i Asian operations

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Singapore	(42)	72	159
Hong Kong	(31)	(15)	113
Vietnam	14	(14)	(47)
Other operations	38	58	212
	(21)	101	437

For half year 2010 short-term fluctuations for Asian operations of £(21) million primarily reflect the deterioration in equity markets, particularly in Hong Kong and Singapore, partly offset by the impact of positive bond returns, mainly arising in Vietnam. For half year 2009 short-term fluctuations for Asian operations of £101 million reflect the effect of strong equity market performance across the region offset by the impact of negative bond returns, particularly in Hong Kong, Malaysia and Singapore. In addition, in Vietnam there was a switch in the portfolio from equities to other assets in early 2009. The short-term fluctuations in investment returns in Asia for full year 2009 of £437 million reflect the effect of strong equity market performance in particular for participating business and unit-linked business where the in-force value benefits from increases in shareholder transfers and from the capitalisation of increased projected fees due to the higher asset base at the end of the year.

5 Short-term fluctuations in investment returns continued

ii US operations

The fluctuations for US operations comprise the following items:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Actual realised losses less default assumption and amortisation of interest-related gains and losses for fixed income securities and related swap transactions ^a	(175)	(287)	(367)
Actual less long-term return on equity based investments and other items ^b	5	(75)	(144)
Investment return related gain due primarily to changed expectation of profits on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity for equity related products ^c	30	58	110
Total Jackson	(140)	(304)	(401)

Notes

- a The charges relating to fixed income securities for all periods shown above primarily represents the excess of the credit-related losses in the year on the US statutory basis over the amortisation of interest-related gains and longer-term default assumption included within operating profit.
- b The charge in full year 2009 of £(144) million for actual less long-term return on equity based investments and other items primarily relates to the shortfall of actual return against the expected return on investments in limited partnerships.
- c This item arises due to the market returns, net of related hedging activity, being higher or lower than the assumed longer-term rate of return. This gives rise to higher or lower than expected period end values of variable annuity assets under management with a resulting effect on the projected value of future account values and hence future profitability from altered fees. For half year 2010 the US equity market returns were approximately negative 3.3 per cent compared to the assumed longer-term rate of 3.25 per cent for the period which was more than offset by the impact of hedging activity. For half year and full year 2009, the US equity market returns were approximately positive 5.3 per cent (full year 2009: 24 per cent) compared to the assumed longer-term rate of 3.55 per cent (full year 2009: 7.4 per cent).

iii UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations represents:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
With-profits ^a	(76)	(270)	430
Shareholder-backed annuity ^b	17	(60)	(40)
Unit-linked and other ^c	(19)	(33)	55
	(78)	(363)	445

Notes

- a For with-profits business the charge for half year 2010 of £(76) million (half year 2009: £(270) million) reflects the positive 2.6 per cent (half year 2009: negative one per cent) actual investment return on the PAC with-profits fund against an assumed rate of 3.3 per cent for both periods. The credit for full year 2009 of £430 million reflects the positive variance of 8.6 per cent against the assumed long-term return for the investments covering policyholder liabilities and unallocated surplus.
- b Short-term fluctuations in investment returns for shareholder-backed annuity business include gains (losses) on surplus assets relative to the expected return due to a fall (rise) in yields and mismatching profits and losses arising from the impacts of changes in yields on assets and liabilities of differing durations. The short-term fluctuations in investment returns for half year 2010 of a credit of £17 million primarily represent gains arising on surplus assets of £47 million, partially offset by mismatching losses of £(28) million. The charge of £(60) million for half year 2009 primarily relates to losses on surplus assets. For full year 2009, the charge of £(40) million represents mismatching losses of £(105) million, partially offset by better than expected default experience of £22 million with the remaining balance of £43 million consisting of positive movements in other asset values partially offset by losses on surplus assets.
- c The charge of £(19) million for half year 2010, £(33) million for half year 2009 and the credit of £55 million in full year 2009 relate primarily to unit-linked business representing the (decrease) increase in capitalised value of future fees arising from the (negative) positive movements in market values experienced during the relevant reporting periods.

iv IGD hedge costs

During the severe equity market conditions experienced in the first quarter of 2009, coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to the regular operational hedging programmes. The hedge contracts expired in 2009 and have not been renewed.

v Other operations

Short-term fluctuations in investment returns of Other operations, in addition to the previously discussed IGD hedge costs, arise from:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	–	69	28
Unrealised value movements on Prudential Capital bond portfolio	12	2	66
Unrealised value movements on investments held by Other operations	–	4	11
	12	75	105

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

The effects of changes in economic assumptions and time value of cost of options and guarantees resulting from changes in economic factors for in-force business included within the profit from continuing operations before tax (including actual investment returns) arise as follows:

	Half year 2010 £m			Half year 2009 £m			Full year 2009 £m		
	Change in economic assumptions	Change in time value of cost of options and guarantees	Total	Change in economic assumptions	Change in time value of cost of options and guarantees	Total	Change in economic assumptions	Change in time value of cost of options and guarantees	Total
Asian operations ^{note i}	(61)	5	(56)	(86)	(3)	(89)	(165)	(9)	(174)
US operations ^{note ii}	(20)	6	(14)	(60)	24	(36)	(528)	10	(518)
UK insurance operations ^{notes iii, iv}	25	(7)	18	(264)	5	(259)	(270)	52	(218)
Total	(56)	4	(52)	(410)	26	(384)	(963)	53	(910)

Notes

- i The charge of £(61) million for the effect of changes in economic assumptions in half year 2010 primarily reflects the effects of derisking certain asset portfolios in Hong Kong and Singapore with a total impact of a charge of £(96) million partially offset by the effects of routine adjustments for changes in economic factors. The charge for half year 2009 of £(86) million and full year 2009 of £(165) million primarily reflects increases in risk discount rates and fund earned rates (as shown in note 16b), with the largest impact arising for Hong Kong US dollar denominated business arising from the increase in US dollar government bond yields. For full year 2009 the £(165) million charge is net of a credit of £96 million for the effect of altered economic assumptions for Indonesia and Korea arising from a change in the application of the Group's methodology for these operations (as discussed in note 16b).
- ii The charge of £(20) million for the effect of changes in economic assumptions for US operations for half year 2010 reflects the following:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Effect of changes in 10-year treasury rates, beta and equity risk premium: ^a			
Fixed annuity and other general account business	125	(253)	(410)
Variable Annuity (VA) business	(145)	193	183
Increase in risk margin allowance for credit risk ^b	–	–	(301)
	(20)	(60)	(528)

Notes

- a For Jackson, the charge for the effect of changes in economic assumptions represents the aggregate of the effects of changes to projected returns and the risk discount rate. The risk discount rate, as discussed in note 1b(iii), represents the aggregate of the risk-free rate and margin for market risk, credit risk and non-diversifiable non-market risk.

For fixed annuity and other general account business the effect of changes to the risk-free rate, which is defined as the 10-year treasury rate, is reflected in the risk discount rate. This discount rate is in turn applied to projected cash flows which principally reflect projected spread, which is largely insensitive to changes in the risk-free rate. For VA business, changes to the risk-free rate are also reflected in determining the risk discount rate. However, the projected cash flows are also reassessed for altered investment returns on the underlying separate account assets from which fees are charged. For half year 2010, the effect of these changes resulted in an overall credit for fixed annuity and other general account business of £125 million and a charge of £(145) million for VA business reflecting the reduction of 0.9 per cent in the risk-free rate (as shown in note 16b).

For half year and full year 2009, the effect of these changes resulted in an overall charge on fixed annuity and other general account business of £(253) million and £(410) million respectively and an overall credit on VA business of £193 million and £183 million, reflecting the increase in the risk-free rate of 1.3 per cent and 1.6 per cent for these periods.

- b From full year 2009, the Group has included an additional allowance for credit risk. In determining this allowance a number of factors were considered. These factors, in particular, include:
- How much of the credit spread on debt securities represents an increased credit risk not reflected in the Risk Margin Reserve (RMR) long-term default assumptions, and how much is liquidity premium. In assessing this effect consideration has been given to a number of approaches to estimating the liquidity premium by considering statistical data over the four years from 2006 to 2009, and
 - Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit loss to policyholders (subject to guarantee features) through lower crediting rates. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

After taking these and other more detailed factors into account and, based on market conditions in late 2009, the risk discount rate for general account business was increased by 150 basis points as an additional allowance for credit risk. For VA business, the additional allowance increase was set at 20 per cent of the non-VA business increase to reflect the fact that a proportion of the VA business is allocated to general account holdings of debt securities. For half year 2010 these additional allowances have been maintained at 2009 levels, reflecting June 2010 market conditions.

The additional allowance to be applied in future reporting periods will be altered, as necessary, for future credit conditions and as the business in force alters over time.

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

iii The effect of changes in economic assumptions of a credit of £25 million for UK insurance operations for half year 2010 comprises the effect of:

	Half year 2010 £m			Half year 2009 £m			Full year 2009 £m		
	Shareholder-backed annuity business note a	With-profits and other business note b	Total	Shareholder-backed annuity business note a	With-profits and other business note b	Total	Shareholder-backed annuity business note a	With-profits and other business note b	Total
(Decrease) increase in expected long-term rates of return	(72)	(269)	(341)	(264)	78	(186)	(284)	191	(93)
Decrease (increase) in risk discount rates	100	241	341	105	(113)	(8)	240	(311)	(71)
Other changes	–	25	25	–	(70)	(70)	25	(131)	(106)
	28	(3)	25	(159)	(105)	(264)	(19)	(251)	(270)

Notes

- a For half year 2010, the effects of decreases in expected long-term rates of return and risk discount rates for shareholder-backed annuity business primarily reflect the reductions in gilt rates of 0.4 per cent, as shown in note 16b. For half year 2009, the charge of £(264) million for shareholder-backed annuity business arising as a result of a decrease in expected long-term rates of return, reflects primarily an increase in the allowance for best estimate expected defaults. This is partially offset by a credit of £105 million reflecting a decrease in risk discount rates. In full year 2009, the overall charge of £(19) million reflects the effects of regular economic assumption changes. However, the amounts for the component line items shown above reflect a change in the composition of the default allowance between best estimate levels (which are reflected in the long-term rates of return) and allowance for credit risk premium and additional short-term defaults reflected in the risk discount rate.
- b For half year 2010, the charge of £(3) million for with-profits and other business reflects a decrease in fund earned rates and risk discount rates driven by the decrease in gilt rates of 0.4 per cent in the period. For half year 2009, the charge of £(105) million for with-profits and other business reflects an increase in risk discount rates, with a smaller impact from the increase in fund earned rates, primarily driven by the increase in gilt rates of 0.4 per cent in the period. In full year 2009, the charge of £(251) million for with-profits and other business reflects the fact that the risk discount rate has increased significantly more than the earned rate as a result of the revised correlation assumptions, lower equity backing ratio and very low cash return.

iv The effect of changes in time value of cost of options and guarantees of a credit of £52 million in full year 2009 for UK insurance operations primarily relates to with-profits business reflecting the effect of the improved investment return achieved in 2009, combined with an overall beneficial impact arising from changes in economic assumptions.

7 Shareholders' funds - segmental analysis

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Asian operations			
Long-term business:			
Net assets of operations – EEV basis shareholders' funds	6,736	5,164	5,781
Acquired goodwill ^{note iii}	235	80	80
	6,971	5,244	5,861
Asset management: ^{note i}			
Net assets of operations	180	144	161
Acquired goodwill	61	61	61
	241	205	222
	7,212	5,449	6,083
US operations			
Jackson – EEV basis shareholders' funds (net of surplus note borrowings of £182m (half year 2009: £140m; full year 2009: £158m) ⁹)	4,984	3,852	4,122
Broker-dealer and asset management operations: ^{note i}			
Net assets of operations	111	85	95
Acquired goodwill	16	16	16
	127	101	111
	5,111	3,953	4,233
UK operations			
Insurance operations:			
Long-term business operations:			
Smoothed shareholders' funds	5,549	5,022	5,547
Actual shareholders' funds less smoothed shareholders' funds	(107)	(364)	(108)
EEV basis shareholders' funds	5,442	4,658	5,439
Other ^{note i}	17	19	37
	5,459	4,677	5,476
M&G: ^{note i}			
Net assets of operations	190	178	173
Acquired goodwill	1,153	1,153	1,153
	1,343	1,331	1,326
	6,802	6,008	6,802
Other operations			
Holding company net borrowings at market value ⁹	(2,343)	(861)	(1,780)
Other net liabilities ^{note i}	(110)	(829)	(65)
	(2,453)	(1,690)	(1,845)
Total	16,672	13,720	15,273

Representing:

	30 Jun 2010 £m			30 Jun 2009 £m			31 Dec 2009 £m		
	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity	Statutory IFRS basis shareholders' equity	Additional retained profit on an EEV basis	EEV basis shareholders' equity
Asian operations	1,992	4,979	6,971	1,576	3,668	5,244	1,462	4,399	5,861
US operations	3,905	1,079	4,984	2,046	1,806	3,852	3,011	1,111	4,122
UK insurance operations	1,920	3,522	5,442	1,730	2,928	4,658	1,902	3,537	5,439
Total long-term business operations	7,817	9,580	17,397	5,352	8,402	13,754	6,375	9,047	15,422
Other operations ^{note ii}	(656)	(69)	(725)	(632)	598	(34)	(104)	(45)	(149)
Group total	7,161	9,511	16,672	4,720	9,000	13,720	6,271	9,002	15,273

Notes

- i With the exception of the share of the Prudential Staff Pension Scheme (PSPS) deficit attributable to the PAC with-profits fund, which is included in 'Other operations' net liabilities, these amounts have been determined on the statutory IFRS basis. The overall pension scheme deficit, net of tax, attributable to shareholders relating to PSPS is determined as shown below:

7 Shareholders' funds - segmental analysis continued

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
IFRS basis deficit (relating to shareholder-backed operations)	(13)	(69)	(16)
Additional EEV deficit (relating to shareholders' 10 per cent share of the IFRS basis deficit attributable to the PAC with-profits fund)	(4)	(11)	(5)
EEV basis*	(17)	(80)	(21)

*For half year 2009, the EEV basis deficit of £(80) million for other operations includes the shareholders' share of the deficit on the Scottish Amicable Pension Scheme, which from full year 2009 onwards is included within the shareholders' funds of UK long-term business operations.

- ii The additional retained profit on an EEV basis for Other operations represents the mark to market value difference on holding company net borrowings of a charge of £(50) million (half year 2009: credit of £634 million; full year 2009: charge of £(26) million) and the effect of accounting for pension costs for the Prudential Staff Pension Scheme.
- iii The increase in acquired goodwill for Asian long-term business operations from £80 million for full year 2009 to £235 million for half year 2010 represents £145 million arising from the acquisition of United Overseas Bank Life Assurance Limited (as shown in note 14) and £10 million for exchange rate movements.

8 Analysis of movement in free surplus

Free surplus is the market value of the net worth in excess of the capital required to support the covered business. Where appropriate, adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost so as to comply with the EEV principles. Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements, as described in note 1b(ii).

	Half year 2010 £m		
	Long-term business note 13	Asset management and UK general insurance commission note ii	Free surplus of long-term business, asset management and UK general insurance commission
Long-term business and asset management operations ^{note i}			
Underlying movement:			
New business:			
Excluding Japan	(337)	–	(337)
Japan	(2)	–	(2)
Total	(339)	–	(339)
Business in force:			
Expected in-force cash flows (including expected return on net assets)	961	154	1,115
Effects of changes in operating assumptions, operating experience variances and other operating items	171	–	171
	793	154	947
Changes in non-operating items ^{note iii}	56	(4)	52
	849	150	999
Net cash flows to parent company ^{note iv}	(344)	(116)	(460)
Exchange movements, timing differences and other items ^{note v}	167	(2)	165
Net movement in free surplus	672	32	704
Balance at 1 January 2010	2,065	466	2,531
Balance at 30 June 2010	2,737	498	3,235
Representing:			
Asian operations ^{note 13}	970	180	1,150
US operations ^{note 13}	1,209	111	1,320
UK insurance operations ^{note 13}	558	207	765
	2,737	498	3,235
1 January 2010			
Representing:			
Asian operations ^{note 13}	801	161	962
US operations ^{note 13}	749	95	844
UK insurance operations ^{note 13}	515	210	725
	2,065	466	2,531

8 Analysis of movement in free surplus continued

Notes

- i All figures are shown net of tax.
- ii For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' funds as shown in note 7.
- iii Changes in non-operating items
This represents short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions for long-term business operations.
Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations together with the shareholders' 10 per cent interest in the value movements on the assets in the with-profits funds.
- iv Net cash flows to parent company reflect the flows for long-term business operations as included in the holding company cash flow at transaction rates.
- v Exchange movements, timing differences and other items represent:

	Long-term business £m	Asset management and UK general insurance commission £m	Total £m
Exchange movements	136	21	157
Mark to market value movements on Jackson assets backing surplus and required capital ^{note 13}	67	–	67
Other	(36)	(23)	(59)
	167	(2)	165

9 Net core structural borrowings of shareholder-financed operations

	30 Jun 2010 £m			30 Jun 2009 £m			31 Dec 2009 £m		
	IFRS basis	Mark to market value adjust- ment	EEV basis at market value	IFRS basis	Mark to market value adjust- ment	EEV basis at market value	IFRS basis	Mark to market value adjust- ment	EEV basis at market value
Holding company* cash and short-term investments	(1,023)	–	(1,023)	(1,252)	–	(1,252)	(1,486)	–	(1,486)
Core structural borrowings – central funds ^{note}	3,316	50	3,366	2,747	(634)	2,113	3,240	26	3,266
Holding company net borrowings	2,293	50	2,343	1,495	(634)	861	1,754	26	1,780
Core structural borrowings – Jackson	166	16	182	152	(12)	140	154	4	158
Net core structural borrowings of shareholder-financed operations	2,459	66	2,525	1,647	(646)	1,001	1,908	30	1,938

*Including central finance subsidiaries.

Note

EEV basis holding company borrowings comprise:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
Perpetual subordinated capital securities (Innovative Tier 1)	1,470	612	1,351
Subordinated debt (Lower Tier 2)	1,323	1,056	1,372
Senior debt	573	445	543
	3,366	2,113	3,266

In May 2009, the Company repaid maturing £249 million senior debt and in the same month the Company issued £400 million subordinated notes in part to replace the maturing debt.

In July 2009, the Company issued US\$750 million perpetual subordinated capital securities.

In accordance with the EEV Principles, core borrowings are carried at market value. As the liabilities are generally held to maturity or for the long-term, no deferred tax asset or liability has been established on the market value adjustment above.

The movement of £36 million in the mark to market value adjustment from £30 million in full year 2009 to £66 million in half year 2010 comprises a loss of £42 million included in the consolidated income statement less a credit of £(6) million for foreign exchange effects.

10 Reconciliation of movement in shareholders' funds

	Half year 2010 £m					Group Total
	Asian operations	US operations	UK insurance operations	Total long-term business operations	Other operations	
Operating profit (based on longer-term investment returns)						
Long-term business:						
New business:						
Excluding Japan ^{note 2}	396	361	135	892	–	892
Japan	(1)	–	–	(1)	–	(1)
Total	395	361	135	891	–	891
Business in force ^{note 3}	241	306	314	861	–	861
	636	667	449	1,752	–	1,752
Asia development expenses	(3)	–	–	(3)	–	(3)
UK general insurance commission	–	–	–	–	23	23
M&G	–	–	–	–	143	143
Asian asset management operations	–	–	–	–	36	36
US broker-dealer and asset management	–	–	–	–	15	15
Other income and expenditure	–	–	–	–	(262)	(262)
Solvency II implementation costs	–	–	(2)	(2)	(20)	(22)
Restructuring costs	–	–	(5)	(5)	–	(5)
Operating profit based on longer-term investment returns	633	667	442	1,742	(65)	1,677
Short-term fluctuations in investment returns ^{note 5}	(21)	(140)	(78)	(239)	12	(227)
Mark to market value movements on borrowings ^{note 9}	–	(12)	–	(12)	(30)	(42)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(9)	(9)	(16)	(25)
Effect of changes in economic assumptions and time value of cost of options and guarantees ^{note 6}	(56)	(14)	18	(52)	–	(52)
Costs of terminated AIA transaction ^{note 4}	–	–	–	–	(377)	(377)
Profit (loss) from continuing operations before tax (including actual investment returns)	556	501	373	1,430	(476)	954
Tax (charge) credit attributable to shareholders' profit (loss): ^{note 11}						
Tax on operating profit	(133)	(227)	(123)	(483)	18	(465)
Tax on short-term fluctuations in investment returns	9	195	22	226	(7)	219
Tax on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	2	2	4	6
Tax on effect of changes in economic assumptions and time value of cost of options and guarantees	7	5	(5)	7	–	7
Tax on costs of terminated AIA transaction ^{note 4}	–	–	–	–	93	93
Total tax (charge) credit	(117)	(27)	(104)	(248)	108	(140)
Non-controlling interests	–	–	–	–	(2)	(2)
Profit (loss) for the period	439	474	269	1,182	(370)	812
Exchange movements on foreign operations and net investment hedges ^{note 1}	535	336	–	871	(65)	806
Related tax	–	–	–	–	(8)	(8)
Intra-group dividends (including statutory transfer) ^{note 1v}	(114)	–	(261)	(375)	375	–
External dividends	–	–	–	–	(344)	(344)
Reserve movements in respect of share-based payments	–	–	–	–	15	15
Acquisition of UOB Life ^{notes iii and 14}	75	–	–	75	(75)	–
Investment in operations ^{note 1v}	21	–	4	25	(25)	–
Other transfers ^{note 1v}	(1)	(15)	(9)	(25)	25	–
Movement in own shares held in respect of share-based payment plans	–	–	–	–	8	8
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	–	–	4	4
New share capital subscribed	–	–	–	–	39	39
Mark to market value movements on Jackson assets backing surplus and required capital (net of related tax of £36m) ^{note 13}	–	67	–	67	–	67
Net increase (decrease) in shareholders' equity	955	862	3	1,820	(421)	1,399
Shareholders' equity at 1 January 2010 ^{notes ii and 7}	5,781	4,122	5,439	15,342	(69)	15,273
Shareholders' equity at 30 June 2010^{notes ii and 7}	6,736	4,984	5,442	17,162	(490)	16,672

Notes

- i Profits are translated at average exchange rates, consistent with the method applied for statutory IFRS basis results. The amounts recorded above for exchange rate movements reflect the difference between 30 June 2010 and 31 December 2009 exchange rates as applied to shareholders' funds at 1 January 2010 and the difference between 30 June 2010 exchange rates and average rates for the six months ended 30 June 2010.
- ii For the purposes of the table above, goodwill related to Asia long-term operations (as shown in note 7) is included in Other operations.
- iii The charge of £(75) million for Other operations relating to the acquisition of UOB Life represents cash consideration paid of £(220) million offset by goodwill arising on the acquisition of £145 million (as shown in note 14).
- iv Total intra-group dividends and investment in operation represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m	Other operations £m	Total £m
Intra-group dividends (including statutory transfer)	(114)	–	(261)	(375)	375	–
Investment in operations ^a	21	–	4	25	(25)	–
Total ^b	(93)	–	(257)	(350)	350	–

a Investment in operations reflects increases in share capital.

b The difference between the total above of £(350) million for intra-group dividends (including statutory transfer) and investment in operations, of the long-term business operations and the net cash flows to parent company of £(344) million (as shown in note 8) primarily relates to timing differences, intra-group loans and other non-cash items.

- v Other transfers (from) to long-term business operations to Other operations in half year 2010 represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
Adjustment for net of tax asset management projected profits of covered business	(6)	(2)	(9)	(17)
Other adjustments	5	(13)	–	(8)
	(1)	(15)	(9)	(25)

11 Tax attributable to shareholders' profit

The tax charge comprises:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Tax charge on operating profit based on longer-term investment returns:			
Long-term business:			
Asian operations ^{note i}	133	83	239
US operations	227	175	416
UK insurance operations ^{note i}	123	113	245
	483	371	900
Other operations	(18)	(7)	(34)
Total tax charge on operating profit based on longer-term investment returns	465	364	866
Tax credit on items not included in operating profit:			
Tax credit on short-term fluctuations in investment returns ^{note ii}	(219)	(155)	(26)
Tax credit on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(6)	(20)	(23)
Tax credit on effect of changes in economic assumptions and time value of cost of options and guarantees	(7)	(137)	(336)
Tax credit on costs of terminated AIA transaction	(93)	–	–
Total tax credit on items not included in operating profit	(325)	(312)	(385)
Tax charge on profit on ordinary activities from continuing operations (including tax on actual investment returns)	140	52	481

Notes

- i Including tax relief on Asia development expenses and restructuring costs borne by UK insurance operations.
- ii The tax credit on short-term fluctuations in investment returns for half year 2010 of £219 million includes a credit of £62 million for a net present value reduction in US deferred tax liabilities following changes to variable annuity reserving in accordance with revised statutory guidance.

12 Earnings per share (EPS)

	2010 £m	2009 £m	
	Half year	Half year	Full year
Operating EPS:			
Operating profit before tax	1,677	1,246	3,090
Tax	(465)	(364)	(866)
Non-controlling interests	(2)	(1)	(3)
Operating profit after tax and non-controlling interests	1,210	881	2,221
Operating EPS (pence)	48.0p	35.4p	88.8p
Total EPS:			
Profit from continuing operations before tax	954	67	1,743
Tax	(140)	(52)	(481)
Discontinued operations (net of tax)	–	–	(14)
Non-controlling interests	(2)	(1)	(3)
Total profit after tax and non-controlling interests	812	14	1,245
Total EPS (pence)	32.2p	0.6p	49.8p
Average number of shares (millions)	2,520	2,489	2,501

The average number of shares reflects the average number in issue adjusted for shares held by employee trusts and consolidated unit trusts and OEICs which are treated as cancelled.

13 Reconciliation of net worth and value of in-force business^{note 1}

	Half year 2010 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note 4v	Total long-term business
Group					
Shareholders' equity at 1 January 2010	2,065	2,994	5,059	10,283	15,342
New business contribution: ^{notes ii, iii}					
Excluding Japan	(337)	223	(114)	744	630
Japan	(2)	–	(2)	1	(1)
Total	(339)	223	(116)	745	629
Existing business – transfer to net worth	882	(213)	669	(669)	–
Expected return on existing business	79	41	120	468	588
Changes in operating assumptions and experience variances	171	2	173	(131)	42
Changes in non-operating assumptions, experience variances and non-controlling interests	56	(16)	40	(117)	(77)
Profit after tax and non-controlling interests from long-term business	849	37	886	296	1,182
Exchange movements on foreign operations and net investment hedges	136	175	311	560	871
Acquisition of UOB Life	30	43	73	2	75
Intra-group dividends (including statutory transfer) and investment in operations ^{note v}	(385)	–	(385)	35	(350)
Mark to market value movements on Jackson assets backing surplus and required capital	67	–	67	–	67
Other transfers from net worth	(25)	–	(25)	–	(25)
Shareholders' equity at 30 June 2010	2,737	3,249	5,986	11,176	17,162

	Half year 2010 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note iv	Total long-term business
Representing:					
Asian operations					
Shareholders' equity at 1 January 2010	801	585	1,386	4,395	5,781
New business contribution: notes ii, iii					
Excluding Japan	(123)	39	(84)	382	298
Japan	(2)	–	(2)	1	(1)
Total	(125)	39	(86)	383	297
Existing business – transfer to net worth	255	(1)	254	(254)	–
Expected return on existing business	58	(7)	51	207	258
Changes in operating assumptions and experience variances	(35)	(5)	(40)	(15)	(55)
Changes in non-operating assumptions, experience variances and non-controlling interests	45	(5)	40	(101)	(61)
Profit after tax and non-controlling interests from long-term business	198	21	219	220	439
Exchange movements on foreign operations and net investment hedges	70	64	134	401	535
Acquisition of UOB Life	30	43	73	2	75
Intra-group dividends (including statutory transfer) and investment in operations note v	(128)	–	(128)	35	(93)
Other transfers from net worth	(1)	–	(1)	–	(1)
Shareholders' equity at 30 June 2010	970	713	1,683	5,053	6,736
US operations					
Shareholders' equity at 1 January 2010	749	1,405	2,154	1,968	4,122
New business contribution note ii	(179)	146	(33)	268	235
Existing business – transfer to net worth	373	(177)	196	(196)	–
Expected return on existing business	16	28	44	74	118
Changes in operating assumptions and experience variances	96	3	99	(12)	87
Changes in non-operating assumptions, experience variances and non-controlling interests	36	(39)	(3)	37	34
Profit after tax and non-controlling interests from long-term business	342	(39)	303	171	474
Exchange movements on foreign operations and net investment hedges	66	111	177	159	336
Intra-group dividends (including statutory transfer) and investment in operations	–	–	–	–	–
Mark to market value movements on Jackson assets backing surplus and required capital	67	–	67	–	67
Other transfers from net worth	(15)	–	(15)	–	(15)
Shareholders' equity at 30 June 2010	1,209	1,477	2,686	2,298	4,984
UK insurance operations					
Shareholders' equity at 1 January 2010	515	1,004	1,519	3,920	5,439
New business contribution note ii	(35)	38	3	94	97
Existing business – transfer to net worth	254	(35)	219	(219)	–
Expected return on existing business	5	20	25	187	212
Changes in operating assumptions and experience variances	110	4	114	(104)	10
Changes in non-operating assumptions, experience variances and non-controlling interests	(25)	28	3	(53)	(50)
Profit after tax and non-controlling interests from long-term business	309	55	364	(95)	269
Intra-group dividends (including statutory transfer) and investment in operations	(257)	–	(257)	–	(257)
Other transfers from net worth	(9)	–	(9)	–	(9)
Shareholders' equity at 30 June 2010	558	1,059	1,617	3,825	5,442

13 Reconciliation of net worth and value of in-force business^{note 1} continued**Notes**

- i All figures are shown net of tax.
 ii The movements arising from new business contribution and new business capital usage are as follows:

	Half year 2010 £m					
	Asian operations (excluding Japan) note iii	US operations	UK insurance operations	Total long-term business operations note iii	Japan note iii	Total long-term business operations
Pre-tax new business contribution ^{note 2}	396	361	135	892	(1)	891
Tax	(98)	(126)	(38)	(262)	–	(262)
Post-tax new business contribution	298	235	97	630	(1)	629
Free surplus invested in new business	(123)	(179)	(35)	(337)	(2)	(339)
Post-tax new business contribution per £1m free surplus invested	2.4	1.3	2.8	1.9	(0.5)	1.9

	Half year 2009 £m					
	Asian operations (excluding Japan) note iii	US operations	UK insurance operations	Total long-term business operations note iii	Japan note iii	Total long-term business operations (as previously published)
Pre-tax new business contribution ^{note 2}	286	292	122	700	(9)	691
Tax	(74)	(102)	(36)	(212)	–	(212)
Post-tax new business contribution	212	190	86	488	(9)	479
Free surplus invested in new business	(106)	(168)	(45)	(319)	(12)	(331)
Post-tax new business contribution per £1m free surplus invested	2.0	1.1	1.9	1.5	(0.8)	1.4

	Full year 2009 £m					
	Asian operations (excluding Japan) note iii	US operations	UK insurance operations	Total long-term business operations note iii	Japan note iii	Total long-term business operations (as previously published)
Pre-tax new business contribution ^{note 2}	725	664	230	1,619	(12)	1,607
Tax	(180)	(232)	(64)	(476)	–	(476)
Post-tax new business contribution	545	432	166	1,143	(12)	1,131
Free surplus invested in new business	(231)	(326)	(103)	(660)	(15)	(675)
Post-tax new business contribution per £1m free surplus invested	2.4	1.3	1.6	1.7	(0.8)	1.7

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Free surplus:			
Excluding Japan	(337)	(319)	(660)
Japan	(2)	(12)	(15)
Total	(339)	(331)	(675)
Required capital	223	220	451
Total net worth	(116)	(111)	(224)
Value of in-force business	745	590	1,355
Total long-term business	629	479	1,131

- iii New business contribution and free surplus invested in new business for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.

- iv The value of in-force business includes the value of future margins from current in-force business less the cost of holding required capital and represents:

	Half year 2010 £m			
	Asian operations	US operations	UK insurance operations	Group
Value of in-force business before deduction of cost of capital and of guarantees	5,340	2,787	4,102	12,229
Cost of capital ^a	(273)	(159)	(229)	(661)
Cost of time value of guarantees ^b	(14)	(330)	(48)	(392)
Net value of in-force business	5,053	2,298	3,825	11,176

	Half year 2009 £m			
	Asian operations	US operations	UK insurance operations	Group
Value of in-force business before deduction of cost of capital and of guarantees	4,028	2,516	3,776	10,320
Cost of capital	(157)	(66)	(209)	(432)
Cost of time value of guarantees	(6)	(290)	(82)	(378)
Net value of in-force business	3,865	2,160	3,485	9,510

	Full year 2009 £m			
	Asian operations	US operations	UK insurance operations	Group
Value of in-force business before deduction of cost of capital and of guarantees	4,605	2,351	4,181	11,137
Cost of capital	(198)	(175)	(221)	(594)
Cost of time value of guarantees	(12)	(208)	(40)	(260)
Net value of in-force business	4,395	1,968	3,920	10,283

- a The increase in cost of capital for Asian operations from full year 2009 of £(198) million to £(273) million at half year 2010 mainly arises from the addition of new business and the impact of foreign exchange.
- b The increase in the cost of time value of guarantees for US operations from full year 2009 of £(208) million to half year 2010 of £(330) million primarily relates to Variable Annuity (VA) business, arising from the lower economic projection and discounting assumptions, driven by the reduction in the US Treasury bond yield and new business written in the period, reflecting the significant increase in VA sales.
- v The amounts shown in respect of free surplus and the value of in-force business for Asian operations for intra-group dividends and investment in operations include the impact of contingent loan funding.

14 Acquisition of United Overseas Bank (UOB) Life Assurance Limited

On 1 February 2010, the Group acquired from United Overseas Bank (UOB) its 100 per cent interest in UOB Life Assurance Limited in Singapore for total cash consideration, after post-completion adjustments currently estimated at SGD67 million (£32 million), of SGD495 million (£220 million). The acquisition offers new profitable growth opportunities in Asia. As part of the transaction the Group also entered into a long-term strategic partnership to develop a major regional bancassurance business with UOB.

In addition to the amounts above the Group incurred £2 million of acquisition related costs (excluding integration costs). These have been excluded from the consideration transferred and have been recognised as an expense in the period, in the consolidated income statement. This amount has been excluded from operating profit based on longer-term investment returns.

Goodwill arising on acquisition

	£m
Cash consideration	220
Less: fair value of identifiable net assets acquired	(75)
Goodwill arising on acquisition	145

Goodwill arose in the acquisition of UOB Life Assurance Limited in Singapore because the acquisition included revenue and cost synergies. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts and did not arise from contractual or other legal rights.

None of the goodwill arising on this transaction is expected to be deductible for tax purposes.

15 Sensitivity of results to alternative assumptions**a Sensitivity analysis - economic assumptions**

The tables below show the sensitivity of the embedded value as at 30 June 2010 (31 December 2009) and the new business contribution after the effect of required capital for half year 2010 and full year 2009 to:

- one per cent increase in the discount rates;
- one per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- one per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (not applicable for new business contribution);
- holding company statutory minimum capital (by contrast to economic capital);
- five basis point increase in long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK shareholder-backed annuities.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

	Half year 2010 £m			
	Asian operations (including Japan)	US operations	UK insurance operations	Total long-term business operations
New business profit for half year 2010				
As reported ^{note10}	395	361	135	891
Discount rates – 1% increase	(45)	(19)	(20)	(84)
Interest rates – 1% increase	(5)	29	–	24
Interest rates – 1% decrease	3	(30)	–	(27)
Equity/property yields – 1% rise	15	31	7	53
Long-term expected defaults – 5 bps increase	–	–	(4)	(4)
Liquidity premium – 10 bps increase	–	–	8	8

*The impact of the sensitivities above for Japan for half year 2010 are negligible.

	Full year 2009 £m			
	Asian operations (including Japan)	US operations	UK insurance operations	Total long-term business operations
New business profit for full year 2009				
As reported	713	664	230	1,607
Discount rates – 1% increase	(91)	(48)	(43)	(182)
Interest rates – 1% increase	(3)	8	(7)	(2)
Interest rates – 1% decrease	3	(12)	8	(1)
Equity/property yields – 1% rise	31	39	11	81
Long-term expected defaults – 5 bps increase	–	–	(9)	(9)
Liquidity premium – 10 bps increase	–	–	18	18

	Half year 2010 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
Embedded value of long-term operations at 30 June 2010				
As reported ^{note10}	6,736	4,984	5,442	17,162
Discount rates – 1% increase	(572)	(162)	(399)	(1,133)
Interest rates – 1% increase	(248)	(62)	(229)	(539)
Interest rates – 1% decrease	243	(16)	299	526
Equity/property yields – 1% rise	256	112	215	583
Equity/property market values – 10% fall	(146)	127	(300)	(319)
Statutory minimum capital	55	111	5	171
Long-term expected defaults – 5 bps increase	–	–	(81)	(81)
Liquidity premium – 10 bps increase	–	–	162	162

	Full year 2009 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
Embedded value of long-term operations at 31 December 2009				
As reported ^{note 10}	5,781	4,122	5,439	15,342
Discount rates – 1% increase	(522)	(146)	(401)	(1,069)
Interest rates – 1% increase	(183)	(137)	(231)	(551)
Interest rates – 1% decrease	231	55	298	584
Equity/property yields – 1% rise	255	82	213	550
Equity/property market values – 10% fall	(147)	(10)	(298)	(455)
Statutory minimum capital	28	123	6	157
Long-term expected defaults – 5 bps increase	–	–	(76)	(76)
Liquidity premium – 10 bps increase	–	–	152	152

Effect of proposed change in UK corporation tax rates

The half year 2010 results exclude the impact of any changes to the UK corporate tax which were announced in the Budget on 22 June 2010 as the changes have not yet been enacted in the legislative process. At the half year 2010 stage, the effect of incorporating a one per cent reduction in the corporate tax rate from 28 per cent to 27 per cent with effect from 1 April 2011 in projecting the tax cash flows attaching to in-force business, would be to increase the net of tax value of the in-force business for UK insurance operations at 1 January 2010 by £31 million. The impact of further reductions in the UK corporate tax rate to reduce the rate by one per cent per annum each year to 24 per cent in 2014 would increase the net of tax value of the in-force business of UK insurance operations at 1 January 2010 by £110 million.

16 Assumptions

a Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

b Principal economic assumptions

Deterministic assumptions

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on cash or fixed interest securities. For the Group's Asian operations, the active basis is appropriate for business written in Japan, Korea and US dollar denominated business written in Hong Kong. Except in respect of the projected returns of holdings of Asian debt and equity securities for those countries where long-term fixed interest markets are less established, the 'active' basis of assumption setting has been applied in preparing the results of all the Group's US and UK long-term business operations.

For countries where long-term fixed interest markets are less established, investment return assumptions and risk discount rates are based on an assessment of longer-term economic conditions. Except for the countries listed above, this basis is appropriate for the Group's Asian operations. Similarly, the projected returns on holdings of Asian securities in these territories by other Group businesses are set on the same basis.

Expected returns on equity and property asset classes in respect of each territory are derived by adding a risk premium, based on the long-term view of Prudential's economists, to the risk-free rate. In Asia, equity risk premiums range from 3.25 per cent to 8.6 per cent (half year 2009: 3.0 per cent to 7.0 per cent; full year 2009: 3.0 per cent to 8.35 per cent). In the US and the UK, the equity risk premium is 4.0 per cent for all periods for which results are prepared in this report.

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

The tables below summarise the principal financial assumptions:

Asian operations	30 Jun 2010 %											
	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	10.5	4.6	12.5	13.7	–	7.8	8.8	15.75	6.3	7.7	13.75	15.75
In force	10.5	4.6	12.5	13.7	5.1	7.2	8.9	15.75	7.3	7.8	13.75	15.75
Expected long-term rate of inflation	3.5	2.25	4.0	5.0	0.0	3.0	2.5	5.0	2.0	2.0	3.0	5.0
Government bond yield	7.0	3.0	7.5	9.0	1.7	5.0	5.75	9.0	4.75	5.5	7.0	9.0

16 Assumptions continued

Asian operations	30 Jun 2009 %											
	China	Hong Kong notes ii, iii	India	Indonesia	Japan	Korea	Malaysia note iii	Philippines	Singapore note iii	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	11.75	5.1	14.25	15.25	5.1	9.2	9.25	15.75	5.65	9.0	13.0	16.75
In force	11.75	5.3	14.25	15.25	5.1	9.2	9.2	15.75	6.8	8.9	13.0	16.75
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.0	2.75	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	8.25	3.6	9.25	10.25	1.9	5.3	6.5	9.25	4.25	5.5	6.75	10.25

Asian operations	31 Dec 2009 %											
	China	Hong Kong notes ii, iii	India	Indonesia	Japan	Korea	Malaysia note iii	Philippines	Singapore note iii	Taiwan	Thailand	Vietnam
Risk discount rate:												
New business	11.75	5.5	14.25	13.8	5.1	8.2	9.4	15.75	5.7	7.5	13.0	16.75
In force	11.75	5.7	14.25	13.8	5.1	8.4	9.5	15.75	6.8	7.5	13.0	16.75
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.0	2.75	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	8.25	3.9	9.25	10.25	1.9	5.5	6.5	9.25	4.25	5.5	6.75	10.25

	Asia total %		
	2010 30 Jun	2009 30 Jun	2009 31 Dec
Weighted risk discount rate: ^{note i}			
New business (excluding Japan)	9.1	9.3	9.0
In force	8.6	8.5	8.8

Notes

- i The weighted risk discount rates for Asian operations shown above have been determined by weighting each country's risk discount rates by reference to the EEV basis new business result and the closing value of in-force business.
- ii The assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force Hong Kong business.
- iii The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	2010 30 Jun %	2009 30 Jun %	2009 31 Dec %
Hong Kong	7.0	7.6	7.9
Malaysia	11.7	12.4	12.4
Singapore	10.7	10.2	10.2

To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.

- iv At full year 2009, the Group reconsidered the application of the Group's methodology for certain less established operations, with a consequent change in the risk discount rates used for Indonesia and Korea and a change in the assumed capital requirement to better align with internal management and pricing bases, primarily in China, Indonesia, Philippines and Vietnam.

US operations (Jackson)	30 Jun 2010 %	30 Jun 2009 %	31 Dec 2009 %
Assumed new business spread margins: ^{note iii}			
Fixed Annuity business (including the proportion of variable annuity business invested in the general account): ^{note i}			
First five years:			
January to June issues	2.0	2.75	2.75
July to December issues	n/a	n/a	2.25
Long-term assumption	2.0	2.0	2.0
Fixed Index Annuity business:			
January to June issues	2.5	3.5	3.5
July to December issues	n/a	n/a	2.5
Risk discount rate:			
Variable annuity	7.5	7.6	8.2
Non-variable annuity	5.3	4.3	6.2
Weighted average total: ^{note ii}			
New business	7.2	6.3	7.8
In force	6.4	5.7	7.2
US 10-year treasury bond rate at end of period	3.0	3.6	3.9
Pre-tax expected long-term nominal rate of return for US equities	7.0	7.6	7.9
Expected long-term rate of inflation	1.8	1.8	2.4

Notes

- i For new business issuances in half year 2010, the assumed spread margin for fixed annuities and for the proportion of variable annuity business invested in the general account of 2.0 per cent applies from inception for all durations and reflects the combined effects of net annualised yields on new assets of 5.3 per cent and crediting rates. The assumptions for half year and full year 2009 reflected the exceptional combined benefit of high investment yields which were 7.0 per cent for half year and 6.4 per cent for full year 2009, and lower crediting rates. The assumptions for those periods included a provision that crediting rates and spreads would normalise in the future. Therefore, the assumption for new business spreads shown above were set at the higher new level for the first five years before reducing over the following 10 years with the valuation of new business taking into account an assumed associated risk of increased lapse under certain interest rate scenarios.
- ii The weighted average risk discount rates reflect the mix of business between variable annuity and non-variable annuity business. The decrease in the weighted average risk discount rates from full year 2009 to half year 2010 primarily reflects the decrease in the US 10-year Treasury bond rate of 90 bps, partly offset by a change in the product mix with the half year 2010 results seeing an increase in the proportion of new and in-force business arising from Variable Annuity business.
- iii Credit risk treatment
The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. Positive net cash flows are assumed to be reinvested in a mix of corporate bonds, commercial mortgages and limited partnerships. The yield on those assets is assumed to grade from the current level to a yield that allows for a long-term assumed credit spread on the reinvested assets of 1.25 per cent over 10 years. The expected new business spread margins are determined after allowing for a Risk Margin Reserve (RMR) allowance for half year 2010 of 25 bps (half year 2009: 33 bps; full year 2009: 28 bps) for longer-term defaults as described in note 1b(iii). The RMR of 25 bps represents the allowance, as at the valuation applied in the cash flow projections of the value of the in-force business.
- In the event that longer-term default levels are higher then, unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.
- The results for Jackson reflect the application of the discount rates shown above, which for half year 2010 and full year 2009 reflect the inclusion of an additional allowance for a combination of credit risk premium and short-term default allowance as described in note 1b(iii) and note 6.
- In the event that US 10-year treasury rates increase, the altered embedded value results would reflect a lower contribution from fixed annuity business and a partially offsetting increase for variable annuity business as the projected earned rate, as well as the discount rate, would increase for this type of business.

16 Assumptions continued

UK insurance operations ^{note iv}	30 Jun 2010 %	30 Jun 2009 %	31 Dec 2009 %
Shareholder-backed annuity business:			
Risk discount rate: ^{notes i, iv}			
New business	7.3	11.0	8.7
In force	9.6	11.0	10.2
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business: ^{note iii}			
Fixed annuities	5.1	6.7	5.6
Inflation-linked annuities	5.5	6.1	5.8
Other business:			
Risk discount rate: ^{notes ii, iv}			
New business	6.6	7.1	7.7
In force	6.8	7.0	7.4
Pre-tax expected long-term nominal rates of investment return:			
UK equities	8.0	8.1	8.4
Overseas equities	7.0 to 10.1	7.6 to 10.3	7.9 to 10.3
Property	6.2	6.4	6.7
Gilts	4.0	4.1	4.4
Corporate bonds ^{note iv}	5.6	5.6	6.1
Expected long-term rate of inflation	3.5	3.7	3.7
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:			
Pension business (where no tax applies)	6.5	6.75	6.9
Life business	5.7	6.1	6.0

Notes

- i The risk discount rate applied to shareholder-backed annuity business has been determined after allowing for credit risk as detailed in note iv below.
- ii The risk discount rates for new business and business in force for UK insurance operations other than shareholder-backed annuities reflect weighted rates based on the type of business.
- iii The pre-tax rates of return for shareholder-backed annuity business are based on the gross redemption yield on the backing assets net of a best estimate allowance for future defaults.
- iv Credit spread treatment

For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. For the half year 2010 and full year 2009 results the assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over gilts, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

For the half year 2009 results the Company's projected rate of return on debt securities of the with-profits fund was determined assuming levels of credit spreads, longer-term default allowance and discount rate methodology that were unchanged relative to those used at 31 December 2007.

For UK shareholder-backed annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a market consistent embedded value' including liquidity premium. The liquidity premium in the 'market consistent embedded value' is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. The risk discount rate in EEV reflects the excess of the total allowance for credit risk over the best estimate default assumptions. For Prudential Retirement Income Limited (PRIL), which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk at 30 June 2010 is made up of:

- 17 bps for fixed annuities and 15 bps for inflation-linked annuities in respect of long-term expected defaults. This is derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating, to the asset portfolios.
- 12 bps for fixed annuities and 10 bps for inflation-linked annuities in respect of long-term credit risk premium for the potential volatility in default levels. This is derived by applying the 95th worst percentile from Moody's data from 1970 to 2004, to the asset portfolios.
- 40 bps for fixed annuities and 36 bps for inflation-linked annuities in respect of additional short-term credit risk, reflecting short-term credit rating downgrades and defaults in excess of the long-term assumptions. This element of the overall credit assumption has not been derived by reference to credit spreads; rather it has been reduced in order to offset the impact of actual downgrades during the period on the long-term assumptions in (a) and (b) above and increased to eliminate the positive experience variance that would otherwise have arisen from the small number of actual defaults that were experienced in the period. In addition, the assumptions have been updated to reflect changes in the asset mix, arising particularly from the sale of subordinated financial debt and the addition of higher credit quality new business assets (compared to the in-force portfolio).

The credit assumptions used and the residual liquidity premium element of the bond spread over swap rates is as follows:

	2010 Half year bps	2009 Half year bps	2009 Full year bps
Bond spread over swap rates	173	275	175
Credit risk allowance			
Long-term expected defaults	17	24	19
Long-term credit risk premium	11	15	13
Short-term allowance for credit risk	39	46	39
Total credit risk allowance	67	85	71
Liquidity premium	106	190	104

For new business the weighted average of the point of sale liquidity premium was as follows:

	2010 Half year bps	2009 Half year bps	2009 Full year bps
Bond spread over swap rates	110	249	198
Total credit risk allowance ^{note}	37	80	54
Liquidity premium	73	169	144

Note

At half year 2009, the year end 2008 total allowance for credit risk of 80 basis points for the portfolio as a whole was retained for new business pricing. At full year 2009, specific assets were allocated to the year's new business with the appropriate allowance for credit risk which was 54 basis points. This approach has been continued in half year 2010 for which 37 basis points is the appropriate allowance. The reduced allowance reflects the assets held and other factors that influence the necessary level of provision.

The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

Asian operations

- The same asset return models as used in the UK, appropriately calibrated, have been used for the Asian operations as described for UK insurance operations below. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset.
- The stochastic cost of guarantees is primarily only of significance for the Hong Kong, Korea, Malaysia and Singapore operations.
- The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns for half year 2010 ranges from 18 per cent to 35 per cent (half year 2009: 18 per cent to 30 per cent; full year 2009: 18 per cent to 35 per cent), and the volatility of government bond yields ranges for all periods from 1.3 per cent to 2.4 per cent.

US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to the market yield curve at the valuation date;
- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity returns and bond interest rates have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns for all periods ranges from 18.6 per cent to 28.1 per cent, depending on the class of equities, and the standard deviation of interest rates for all periods ranges from 1.4 per cent to 1.6 per cent.

UK insurance operations

- Interest rates are projected using a two-factor model calibrated to the initial market yield curve;
- The risk premium on equity assets is assumed to follow a log-normal distribution;
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a riskless bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied are as follows:

	30 Jun 2010 %	30 Jun 2009 %	31 Dec 2009 %
Equities:			
UK	18.0	18.0	18.0
Overseas	18.0	16.0	18.0
Property	15.0	15.0	15.0

c Demographic assumptions

Persistence, mortality and morbidity assumptions are based on an analysis of recent experience but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

d Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. It is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered.

For Asian life operations, the expenses comprise costs borne directly and recharged costs from the Asia Regional Head Office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges.

Expenditure of the Regional Head Office that is not allocated to the covered business or asset management operations is charged as incurred. These costs are primarily for corporate related activities. Development expenses are also charged as incurred.

Corporate expenditure for Group Head Office, to the extent not allocated to the PAC with-profits fund, is charged to EEV basis results as incurred.

e Taxation and other legislation

Current taxation and other legislation have been assumed to continue unaltered except where changes have been announced and the relevant legislation passed.

17 Sale of the Taiwan agency business in 2009

	2009 £m
Profit on sale and results for Taiwan agency business	91

In half year 2009, the Company sold the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT\$1. The sale was completed on 19 June 2009.

The profit on sale and results for the period of ownership comprise:

	£m
Proceeds	–
Net asset value attributable to equity holders of Company after the effect of completion and other adjustments and provision for restructuring costs	135
Goodwill written off	(44)
	91
Representing:	
Profit arising on sale and result for long-term business operations	148
Goodwill written off	(44)
Adjustments in respect of restructuring costs borne by non-covered business	(13)
	91

18 Post balance sheet events**Change to the Group's holding in PruHealth and PruProtect**

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

The impact of this transaction on the EEV results, including any dilution gain or loss, is being assessed and will be included within the EEV supplementary information to the Group's full year financial statements.

Total insurance and investment products new business

Total insurance and investment products new business^{notes 1,iii,iv}

	Single			Regular			Annual premium and contribution equivalents (APE)			Present value of new business premiums (PVNBP)		
	2010 £m	2009 £m	2009 £m	2010 £m	2009 £m	2009 £m	2010 £m	2009 £m	2009 £m	2010 £m	2009 £m	2009 £m
	Half year	Half year	Full year	Half year	Half year	Full year	Half year	Half year	Full year	Half year	Half year	Full year
Group insurance operations												
Asia – excl												
Japan ^{note iii}	430	327	785	670	492	1,131	713	524	1,209	3,316	2,551	5,982
US	5,493	3,798	8,885	11	12	24	560	392	912	5,569	3,889	9,048
UK	2,438	2,451	4,768	138	131	246	382	376	723	3,081	3,062	5,902
Group total – excl Japan	8,361	6,576	14,438	819	635	1,401	1,655	1,292	2,844	11,966	9,502	20,932
Japan	8	38	57	6	25	46	7	29	52	34	155	263
Group total	8,369	6,614	14,495	825	660	1,447	1,662	1,321	2,896	12,000	9,657	21,195
Asian insurance operations												
Hong Kong	31	31	94	127	92	232	130	95	241	746	582	1,414
Indonesia	39	13	41	125	82	186	129	83	190	464	282	671
Malaysia	20	33	63	75	49	140	77	52	146	406	295	814
Philippines	23	3	14	8	4	10	10	4	11	42	14	39
Singapore	147	115	297	60	40	98	75	52	128	573	409	1,033
Thailand	8	5	14	12	8	14	13	8	16	45	25	54
Vietnam	–	–	1	18	15	35	18	15	35	65	55	128
SE Asia inc.												
Hong Kong	268	200	524	425	290	715	452	310	767	2,341	1,662	4,153
China	60	43	72	21	17	38	27	21	45	161	125	253
India	32	32	47	116	73	163	119	76	168	329	272	581
Korea	24	20	38	43	64	118	45	66	122	226	314	568
Taiwan	46	32	104	65	48	97	70	51	107	259	178	427
Total Asian operations – excl Japan	430	327	785	670	492	1,131	713	524	1,209	3,316	2,551	5,982
US insurance operations												
Fixed annuities	416	701	1,053	–	–	–	42	69	105	416	701	1,053
Fixed index annuities	600	575	1,433	–	–	–	60	58	143	600	575	1,433
Life	5	5	10	11	12	24	11	13	25	81	96	173
Variable annuities	4,472	2,517	6,389	–	–	–	447	252	639	4,472	2,517	6,389
Total US insurance operations	5,493	3,798	8,885	11	12	24	560	392	912	5,569	3,889	9,048
UK insurance operations												
Direct and partnership annuities	362	273	590	–	–	–	36	27	59	362	273	590
Intermediated annuities	119	140	242	–	–	–	12	14	24	119	140	242
Internal vesting annuities	637	726	1,357	–	–	–	64	73	136	637	726	1,357
Total individual annuities	1,118	1,139	2,189	–	–	–	112	114	219	1,118	1,139	2,189
Corporate pensions	159	115	192	106	103	191	122	114	210	613	571	1,007
Onshore bonds	688	758	1,444	–	–	–	69	76	145	689	759	1,444
Other products	462	419	881	32	28	55	78	70	143	650	573	1,200
Wholesale	11	20	62	–	–	–	1	2	6	11	20	62
Total UK insurance operations	2,438	2,451	4,768	138	131	246	382	376	723	3,081	3,062	5,902
Group Total – excl Japan	8,361	6,576	14,438	819	635	1,401	1,655	1,292	2,844	11,966	9,502	20,932

Investment products - funds under management^{notes ii,v}

	2010 £m				
	1 Jan 2010	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2010
Asian operations	19,474	37,983	(38,281)	1,169	20,345
US operations	–	–	–	–	–
UK operations	70,306	13,372	(8,698)	690	75,670
Group total	89,780	51,355	(46,979)	1,859	96,015

	2009 £m				
	1 Jan 2009	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2009
Asian operations	15,232	32,084	(30,628)	(311)	16,377
US operations	50	6	(18)	–	38
UK operations	46,997	12,631	(4,006)	299	55,921
Group total	62,279	44,721	(34,652)	(12)	72,336

Notes

i The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement.

Annual Premiums Equivalents (APEs) are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts and are subject to roundings. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions (DWP) rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. falling within one of the classes of insurance specified in Part II of Schedule 1 to the Regulated Activities Order under FSA regulations.

The details shown above for insurance products include contributions for contracts that are classified under IFRS 4 'Insurance Contracts' as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

- ii Investment products referred to in the table for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as 'investment contracts' under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.
- iii The tables above include new business for the Taiwan bank distribution operation. New business of the Taiwan Agency business, which was sold in June 2009, is excluded from the tables.
- iv New business sales for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from the remainder of the Group.
- v New business and market gross inflows and redemptions have been translated at an average exchange rate for the year applicable. Funds under management at points in time are translated at the exchange rate applicable at those dates.

International Financial Reporting Standards (IFRS) basis results

Condensed consolidated income statement

	Note	2010 £m		2009 £m	
		Half year	Half year	Full year	Full year
Earned premiums, net of reinsurance		11,256	9,518	19,976	
Investment return	G,I	5,027	3,625	26,889	
Other income		754	574	1,234	
Total revenue, net of reinsurance		17,037	13,717	48,099	
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	J	(13,650)	(10,783)	(41,195)	
Acquisition costs and other expenditure	G,H	(2,654)	(2,446)	(4,572)	
Finance costs: interest on core structural borrowings of shareholder-financed operations		(129)	(84)	(209)	
Loss on sale of Taiwan agency business	K	–	(559)	(559)	
Total charges, net of reinsurance		(16,433)	(13,872)	(46,535)	
Profit (loss) before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>)*		604	(155)	1,564	
Tax (charge) credit attributable to policyholders' returns		(11)	79	(818)	
Profit (loss) before tax attributable to shareholders	C	593	(76)	746	
Tax (charge) credit	L	(160)	(103)	(873)	
Less: tax attributable to policyholders' returns		11	(79)	818	
Tax (charge) credit attributable to shareholders' returns	L	(149)	(182)	(55)	
Profit (loss) from continuing operations after tax		444	(258)	691	
Discontinued operations (net of tax)†		–	–	(14)	
Profit (loss) for the period		444	(258)	677	
Attributable to:					
Equity holders of the Company		442	(254)	676	
Non-controlling interests		2	(4)	1	
Profit (loss) for the period		444	(258)	677	
Earnings per share (in pence)					
Basic:					
Based on profit (loss) from continuing operations attributable to the equity holders of the Company	M	17.5p	(10.2)p	27.6p	
Based on loss from discontinued operations attributable to the equity holders of the Company		–	–	(0.6)p	
		17.5p	(10.2)p	27.0p	
Diluted:					
Based on profit (loss) from continuing operations attributable to the equity holders of the Company	M	17.5p	(10.2)p	27.6p	
Based on loss from discontinued operations attributable to the equity holders of the Company		–	–	(0.6)p	
		17.5p	(10.2)p	27.0p	

* This measure is the formal profit (loss) before tax measure under IFRS but it is not the result attributable to shareholders.

† The full year 2009 charge which was net of £nil tax, reflected completion adjustments for a previously disposed business.

Condensed consolidated statement of comprehensive income

	Note	2010 £m	2009 £m	
		Half year	Half year	Full year
Profit (loss) for the period		444	(258)	677
Other comprehensive income (loss):				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		315	(292)	(206)
Related tax		(8)	(6)	11
		307	(298)	(195)
Available-for-sale securities:				
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Unrealised holding gains arising during the period		1,123	662	2,249
Add back net losses included in the income statement on disposal and impairment		21	146	420
Total	W	1,144	808	2,669
Related change in amortisation of deferred income and acquisition costs	S	(510)	(235)	(1,069)
Related tax		(215)	(150)	(557)
		419	423	1,043
Other comprehensive income for the period, net of related tax		726	125	848
Total comprehensive income (loss) for the period		1,170	(133)	1,525
Attributable to:				
Equity holders of the Company		1,168	(129)	1,524
Non-controlling interests		2	(4)	1
Total comprehensive income (loss) for the period		1,170	(133)	1,525

Condensed consolidated statement of changes in equity

	Period ended 30 Jun 2010 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
Reserves								
Total comprehensive income for the period	–	–	442	307	419	1,168	2	1,170
Dividends	–	–	(344)	–	–	(344)	–	(344)
Reserve movements in respect of share-based payments	–	–	15	–	–	15	–	15
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	3	3
Share capital and share premium								
New share capital subscribed	–	39	–	–	–	39	–	39
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(26)	26	–	–	–	–	–
Treasury shares								
Movement in own shares in respect of share-based payment plans	–	–	8	–	–	8	–	8
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	4	–	–	4	–	4
Net increase in equity	–	13	151	307	419	890	5	895
At beginning of period	127	1,843	3,964	203	134	6,271	32	6,303
At end of period	127	1,856	4,115	510	553	7,161	37	7,198

Condensed consolidated statement of changes in equity continued

	Period ended 30 Jun 2009 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	Total equity
Reserves								
Total comprehensive income (loss) for the period	–	–	(254)	(298)	423	(129)	(4)	(133)
Dividends	–	–	(322)	–	–	(322)	–	(322)
Reserve movements in respect of share-based payments	–	–	18	–	–	18	–	18
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	(22)	(22)
Share capital and share premium								
New share capital subscribed	1	95	–	–	–	96	–	96
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(95)	95	–	–	–	–	–
Treasury shares								
Movement in own shares in respect of share-based payment plans	–	–	7	–	–	7	–	7
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	(8)	–	–	(8)	–	(8)
Net increase (decrease) in equity	1	–	(464)	(298)	423	(338)	(26)	(364)
At beginning of period	125	1,840	3,604	398	(909)	5,058	55	5,113
At end of period	126	1,840	3,140	100	(486)	4,720	29	4,749

Condensed consolidated statement of changes in equity continued

	Year ended 31 Dec 2009 £m							Total equity
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Non-controlling interests	
Reserves								
Total comprehensive income (loss) for the year	–	–	676	(195)	1,043	1,524	1	1,525
Dividends	–	–	(481)	–	–	(481)	–	(481)
Reserve movements in respect of share-based payments	–	–	29	–	–	29	–	29
Change in non-controlling interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	–	–	–	–	–	–	(24)	(24)
Share capital and share premium								
New share capital subscribed	2	139	–	–	–	141	–	141
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(136)	136	–	–	–	–	–
Treasury shares								
Movement in own shares in respect of share-based payment plans	–	–	3	–	–	3	–	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	–	–	(3)	–	–	(3)	–	(3)
Net increase (decrease) in equity	2	3	360	(195)	1,043	1,213	(23)	1,190
At beginning of year	125	1,840	3,604	398	(909)	5,058	55	5,113
At end of year	127	1,843	3,964	203	134	6,271	32	6,303

Condensed consolidated statement of financial position

	Note	2010 £m	2009 £m	
		30 Jun	30 Jun	31 Dec
Assets				
Intangible assets attributable to shareholders:				
Goodwill	R	1,465	1,310	1,310
Deferred acquisition costs and other intangible assets	S	4,028	4,045	4,049
		5,493	5,355	5,359
Intangible assets attributable to with-profits funds:				
In respect of acquired subsidiaries for venture fund and other investment purposes		124	159	124
Deferred acquisition costs and other intangible assets		110	111	106
		234	270	230
Total		5,727	5,625	5,589
Other non-investment and non-cash assets:				
Property, plant and equipment		382	428	367
Reinsurers' share of insurance contract liabilities		1,369	1,114	1,187
Deferred tax assets	L	2,691	2,149	2,708
Current tax recoverable		575	389	636
Accrued investment income		2,559	2,366	2,473
Other debtors		1,467	1,311	762
Total		9,043	7,757	8,133
Investments of long-term business and other operations:				
Investment properties		11,360	10,479	10,905
Investments accounted for using the equity method		9	6	6
Financial investments:				
Loans	U	9,587	8,613	8,754
Equity securities and portfolio holdings in unit trusts		71,775	56,069	69,354
Debt securities	V	113,334	89,399	101,751
Other investments		6,768	6,085	5,132
Deposits		9,766	8,806	12,820
Total		222,599	179,457	208,722
Properties held for sale		3	5	3
Cash and cash equivalents		6,040	6,542	5,307
Total assets	O	243,412	199,386	227,754

Condensed consolidated statement of financial position

	Note	2010 £m	2009 £m	
		30 Jun	30 Jun	31 Dec
Equity and liabilities				
Equity				
Shareholders' equity		7,161	4,720	6,271
Non-controlling interests		37	29	32
Total equity		7,198	4,749	6,303
Liabilities				
Policyholder liabilities and unallocated surplus of with-profits funds				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		198,913	165,047	186,398
Unallocated surplus of with-profits funds		10,066	7,061	10,019
Total	AA	208,979	172,108	196,417
Core structural borrowings of shareholder-financed operations:				
Subordinated debt		2,767	2,198	2,691
Other		715	701	703
Total	X	3,482	2,899	3,394
Other borrowings:				
Operational borrowings attributable to shareholder-financed operations	Y	3,234	2,855	2,751
Borrowings attributable to with-profits operations	Y	1,313	1,349	1,284
Other non-insurance liabilities:				
Obligations under funding, securities lending and sale and repurchase agreements		3,222	4,218	3,482
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,667	2,706	3,809
Current tax liabilities		1,272	663	1,215
Deferred tax liabilities	L	4,115	2,651	3,872
Accruals and deferred income		555	626	594
Other creditors		3,246	1,640	1,612
Provisions		641	614	643
Derivative liabilities		2,033	1,379	1,501
Other liabilities		1,455	929	877
Total		19,206	15,426	17,605
Total liabilities		236,214	194,637	221,451
Total equity and liabilities	O	243,412	199,386	227,754

Condensed consolidated statement of cash flows

	Note	2010 £m	2009 £m	
		Half year	Half year	Full year
Cash flows from operating activities				
Profit (loss) before tax (<i>being tax attributable to shareholders' and policyholders' returns</i>) ^{note i}		604	(155)	1,564
Loss before tax from discontinued operations		–	–	(14)
Total profit (loss) before tax		604	(155)	1,550
Changes in operating assets and liabilities ^{note ii}		516	1,068	(2,139)
Other items ^{note ii}		167	633	697
Net cash flows from operating activities		1,287	1,546	108
Cash flows from investing activities				
Net cash flows from purchases and disposals of property, plant and equipment		(22)	(22)	(37)
Completion adjustment for previously disposed business		–	–	(20)
Disposal of Taiwan agency business ^{note iii}	K	–	(436)	(497)
Acquisition of UOB Life, net of cash balance ^{note iv}		(101)	–	–
Net cash flows from investing activities		(123)	(458)	(554)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations: ^{note v}	X			
Issue of subordinated debt, net of costs		–	379	822
Redemption of senior debt		–	(249)	(249)
Interest paid		(131)	(98)	(207)
With-profits operations: ^{note vi}	Y			
Interest paid		(4)	(9)	(9)
Equity capital: ^{note vii}				
Issues of ordinary share capital		13	–	3
Dividends paid		(318)	(226)	(344)
Net cash flows from financing activities		(440)	(203)	16
Net increase (decrease) in cash and cash equivalents		724	885	(430)
Cash and cash equivalents at beginning of period		5,307	5,955	5,955
Effect of exchange rate changes on cash and cash equivalents		9	(298)	(218)
Cash and cash equivalents at end of period		6,040	6,542	5,307

Notes

- i This measure is the formal profit (loss) before tax measure under IFRS but it is not the result attributable to shareholders.
- ii The adjusting items to profit (loss) before tax include changes in operating assets and liabilities, and other items including adjustments in respect of non-cash items, together with operational interest receipts and payments, dividend receipts, and tax paid. The figure of £633 million for other items at half year 2009 (full year 2009: £697 million) includes £559 million (full year 2009: £559 million) for the loss on disposal of Taiwan agency business. The elements of the adjusting items within changes in operating assets and liabilities are as follows:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Other non-investment and non-cash assets	(997)	227	(384)
Investments	(5,278)	(1,076)	(26,388)
Policyholder liabilities (including unallocated surplus)	6,086	2,265	24,932
Other liabilities (including operational borrowings)	705	(348)	(299)
Changes in operating assets and liabilities	516	1,068	(2,139)

- iii The amount of £436 million for half year 2009 and £497 million for full year 2009 in respect of the disposal of the Taiwan agency business shown above, represents the cash and cash equivalents of £388 million held by Taiwan agency business transferred on disposal and restructuring costs paid in cash in the period (half year 2009: £3 million; full year 2009: £64 million). In addition, the cash flow for the disposal includes a £45 million outflow to purchase a 9.99 per cent stake in China Life.
- iv On 6 January 2010, the Group announced the acquisition from United Overseas Bank Limited (UOB) of its 100 per cent interest in UOB Life Assurance Limited in Singapore (see note Q). The amount of £101 million net cash outflow in respect of this acquisition represents consideration which has been paid as at 30 June 2010 of £188 million, acquisition-related costs paid of £2 million, less cash and cash equivalents acquired of £89 million.
- v Structural borrowings of shareholder-financed operations comprise core debt of the holding company and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- vi Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.
- vii Cash movements in respect of equity capital exclude scrip dividends.

A: Basis of preparation and audit status

These condensed consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRSs that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRSs may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 30 June 2010, there were no unendorsed standards effective for the period ended 30 June 2010 affecting the condensed consolidated financial statements, and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2010 and 2009 half years are unaudited. The 2009 full year IFRS basis results have been derived from the 2009 statutory accounts. The auditors have reported on the 2009 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

B: Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this announcement are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2009, except for the following adoption of new accounting pronouncements in 2010:

Revised IFRS 3, 'Business Combinations' and Amendments to IAS 27, 'Consolidated and Separate Financial Statements'

The Group has applied the revised IFRS 3 and amended IAS 27 from 1 January 2010. The revised IFRS 3 and amended IAS 27 are the outcomes of the second phase of the IASB's and the US Financial Accounting Standards Board's (FASB) joint business combination project. The change in accounting policy as a result of the adoption of these standards has been applied prospectively. No restatement to 2009 comparatives is required. The more significant changes from the revised IFRS 3 include:

- the immediate expensing of acquisition-related costs rather than inclusion in goodwill; and
- recognition and measurement at fair value of contingent consideration at acquisition date with subsequent changes to income.

The amendments to IAS 27 reflect changes to the accounting for non-controlling interests (known as minority interests prior to the amendments). From 1 January 2010, transactions that increase or decrease non-controlling interests without a change of control are accounted as equity transactions and therefore no goodwill is recognised.

The adoption of revised IFRS 3 and amended IAS 27 has resulted in presentational and disclosure changes in the Group's financial statements, and affected the accounting for the acquisition of United Overseas Bank (UOB) Life Assurance Limited in Singapore. The disclosure on this acquisition is provided in note Q. As a result of the adoption of the revised IFRS 3, the Group has expensed the UOB Life acquisition-related costs incurred of £2 million which would otherwise have been included within goodwill.

Other accounting pronouncements adopted in 2010

In addition, the Group has adopted the following accounting pronouncements in 2010 but their adoption has had no material impact on the results and financial position of the Group:

- Improvements to IFRSs (2009)
- Amendments to IFRS 2 – Group cash-settled share-based payment transactions
- Amendments to IAS 39, 'Financial instruments: Recognition and Measurement' – Eligible hedged items

This is not intended to be a complete list of accounting pronouncements effective in 2010 as only those that could have an impact upon the Group's financial statements have been discussed.

C: Segment disclosure - income statement

	Note	2010 £m	2009 £m	
		Half year	Half year	Full year
Asian operations^{note i}				
Insurance operations:	Ei			
Underlying results before exceptional credit		262	149	353
Exceptional credit	Ei,b	–	63	63
Total Asian insurance operations		262	212	416
Development expenses		(3)	(5)	(6)
Total Asian insurance operations after development expenses		259	207	410
Asian asset management		36	21	55
Total Asian operations		295	228	465
US operations				
Jackson (US insurance operations) ^{note ii}	Eii	450	217	459
Broker-dealer and asset management		15	2	4
Total US operations		465	219	463
UK operations				
UK insurance operations:				
Long-term business	Eiii	307	303	606
General insurance commission ^{note iii}		23	27	51
Total UK insurance operations		330	330	657
M&G		143	102	238
Total UK operations		473	432	895
Total segment profit		1,233	879	1,823
Other income and expenditure				
Investment return and other income		5	13	22
Interest payable on core structural borrowings		(129)	(84)	(209)
Corporate expenditure:				
Group Head Office		(86)	(74)	(146)
Asia Regional Head Office		(27)	(23)	(57)
Charge for share-based payments for Prudential schemes ^{note iv}		(3)	(11)	(5)
Total		(240)	(179)	(395)
Solvency II implementation costs		(22)	–	–
Restructuring costs ^{note v}		(3)	(12)	(23)
Operating profit based on longer-term investment returns ^{note i}		968	688	1,405
Short-term fluctuations in investment returns on shareholder-backed business	F	26	(80)	36
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes ^{note vi}		(24)	(63)	(74)
Costs of terminated AIA transaction	G	(377)	–	–
Loss on sale and results for Taiwan agency business ^{note i}	K	–	(621)	(621)
Profit (loss) from continuing operations before tax attributable to shareholders		593	(76)	746

Notes

- i Sale of Taiwan agency business: In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan business for which the sale process was completed in June 2009 are included separately within the supplementary analysis of profit for 2009.
- ii The US insurance operating profit of £450 million includes £123 million of net equity hedging gains, net of related DAC, (half year 2009: losses of £23 million; full year 2009: losses of £159 million) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of Jackson's variable and fixed index annuity products, for which a significant proportion are not fair valued. These net gains / losses are variable in nature.
- iii UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the net commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement.
- iv The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.
- v Restructuring costs of £3 million have been incurred in the UK (half year 2009: £7 million; full year 2009: £16 million) and £nil in central operations (half year 2009: £5 million; full year 2009: £7 million).
- vi The shareholders' share of actuarial and other gains and losses on defined benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

Determining operating segments and performance measure of operating segments

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

Insurance operations

- Asia
- US (Jackson)
- UK

Asset management operations

- M&G
- Asian asset management
- US broker-dealer and asset management (including Curian)

Prudential Capital has been incorporated into the M&G operating segment for the purposes of segment reporting.

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and transaction costs arising from business combinations. In addition, for 2010 this measure excluded costs associated with the terminated AIA transaction. For 2009 it excluded the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns. Furthermore, in 2009 the Company sold its Taiwan agency business. In order to facilitate comparisons on a like for like basis, the loss on sale and the results of the Taiwan agency business during the period of ownership are shown separately within the supplementary analysis of profits. Segments results that are reported to the Group Executive Committee (GEC) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and Asian Regional Head Office.

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

a Debt and equity securities

Longer-term investment returns comprise income and longer-term capital returns. For debt securities the longer-term capital returns comprise two elements. These are a risk margin reserve (RMR) based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

The shareholder-backed operation for which the risk margin reserve charge is most significant is Jackson National Life. During the second half of 2009, the National Association of Insurance Commissioners (NAIC) changed its approach to the determination of regulatory ratings of residential mortgage-backed securities (RMBS), using an external third party, PIMCO, to develop regulatory ratings detail for more than 20,000 RMBS securities owned by US insurers at the end of 2009. Jackson has used the ratings resulting from this model to determine the average annual RMR for half year 2010 and full year 2009 as this is considered more relevant information for the RMBS securities concerned than the previous approach of using ratings by Nationally Recognised Statistical Ratings Organisation (NRSRO). It should be noted that this has no impact on the valuation applied to those securities within the IFRS statement of financial position and there is no impact to IFRS profit before tax or shareholders' equity as a result of this change.

b Derivative value movements

Value movements for Jackson's equity-based derivatives and variable and fixed index annuity product embedded derivatives are included in operating profits based on longer-term investment returns. To ensure these reflect longer-term movements the fair value movement included in operating profit is based on longer-term equity volatility levels and long-term average AA corporate bond rate curves, with the movement relating to change in current rates being included in short-term fluctuations. The operating profits based on longer-term investment returns explicitly include:

- The fair value movement in free standing hedging derivatives, excluding the impact of the difference between longer-term and current period implied equity volatility levels as mentioned above;
- The movement in liabilities for those embedded derivative liabilities which are fair valued in accordance with IFRS, primarily GMWB 'not for life' and fixed index annuity business, excluding the impacts of the differences between longer-term and current period equity volatility and incorporating 10-year average yield curves, in lieu of current period yield curves;
- Movements in IFRS basis guarantee liabilities for GMWB 'for life', being those policies where a minimum annual withdrawal is permitted for the duration of the policyholders life subject to certain conditions, and GMDB business for which, under the US GAAP rules applied under IFRS, the reserving methodology under US GAAP principles generally gives rise to a muted impact of current period market movements; and
- Related changes to the amortisation of deferred acquisition costs for each of the above items.

The effects of the above components give rise to variable gains and losses arising from the differing measuring basis between some assets and liabilities. This is further discussed in note E (ii).

Other derivative value movements are excluded from operating results based on longer-term investment returns. These derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement) and product liabilities (for which US GAAP accounting does not reflect the economic features being hedged).

C: Segment disclosure – income statement continued

These key elements are of most importance in determining the operating results based on longer-term investment returns of Jackson.

There are two exceptions to the basis described above for determining operating results based on longer-term investment returns. These are for:

- Unit-linked and US variable annuity business. For such business the policyholder liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns.
- Assets covering non-participating business liabilities that are interest rate sensitive. For UK annuity business policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly asset value movements are recorded within the operating results based on longer-term investment returns. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

c Liabilities to policyholders and embedded derivatives for product guarantees

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

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

Examples where such bifurcation is necessary are:

i Asia**Vietnamese participating business**

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

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

Non-participating business

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

Guaranteed Minimum Death Benefit (GMDB) product features

For unhedged GMDB liabilities accounted for under IFRS using 'grandfathered' US GAAP, such as in the Japanese business, the change in carrying value is determined under FASB Accounting Standards Codification Subtopic 944-80 (formerly SOP 03-01), which partially reflects changes in market conditions. Under the Company's supplementary basis of reporting the operating profit reflects the change in liability based on longer-term market conditions with the difference between the charge to the operating result and the movement reflected in the total result included in short-term fluctuations in investment returns.

ii US operations – Embedded derivatives for variable annuity guarantee features

Under IFRS, the 'not for life' Guaranteed Minimum Withdrawal Benefit (GMWB) is required to be fair valued as an embedded derivative. The movement in carrying values is affected by changes in equity market levels, as well as the level of observed implied equity volatility and changes to the interest rates applied from period to period. For these embedded derivatives the interest rates applied reflect current yield curve rates. For the purposes of determining operating profit based on longer-term investment returns the charge for these features is determined using historical longer-term equity volatility levels and long-term average yield curves.

The Guaranteed Minimum Income Benefit (GMIB) liability, which is fully reinsured, subject to annual claim limits, is accounted for in accordance with FASB Accounting Standards Codification Subtopic 944-80 (formerly SOP 03-01). As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39 and the asset is therefore recognised at fair value. As the GMIB benefit is economically reinsured the mark to market element of the reinsurance asset is included as a component of short-term derivative fluctuation.

iii UK shareholder-backed annuity business

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

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

The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

d Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. For this purpose impairments are calculated as the credit loss determined by comparing the projected cash flows discounted at the original effective interest rate to the carrying value. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

Additional segmental analysis of revenue

The additional segmental analyses of revenue from external customers are as follows:

	Half year 2010 £m				
	Asia	US	UK	Intragroup	Total
Revenue from external customers:					
Insurance operations	3,009	5,676	2,733	(6)	11,412
Asset management	120	295	322	(146)	591
Unallocated corporate	–	–	7	–	7
Intragroup revenue eliminated on consolidation	(36)	(32)	(84)	152	–
Total revenue from external customers	3,093	5,939	2,978	–	12,010

	Half year 2009 £m				
	Asia	US	UK	Intragroup	Total
Revenue from external customers :					
Insurance operations	2,783	3,970	3,048	(8)	9,793
Asset management	64	190	162	(122)	294
Unallocated corporate	–	–	5	–	5
Intragroup revenue eliminated on consolidation	(32)	(29)	(69)	130	–
Total revenue from external customers	2,815	4,131	3,146	–	10,092

	Full year 2009 £m				
	Asia	US	UK	Intragroup	Total
Revenue from external customers:					
Insurance operations	5,336	9,097	5,822	(11)	20,244
Asset management	213	499	513	(271)	954
Unallocated corporate	–	–	12	–	12
Intragroup revenue eliminated on consolidation	(70)	(67)	(145)	282	–
Total revenue from external customers	5,479	9,529	6,202	–	21,210

Revenue from external customers is made up of the following:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Earned premiums, net of reinsurance	11,256	9,518	19,976
Fee income from investment contract business and asset management (included within 'Other income')	754	574	1,234
Total revenue from external customers	12,010	10,092	21,210

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G, the US and the Asian asset management businesses earn fees for investment management and related services. These fees totalled £146 million in half year 2010 (half year 2009: £122 million; and full year 2009: £271 million) and are included in the asset management segment above. In half year 2010, the remaining £6 million (half year 2009: £8 million; full year 2009: £11 million) of intragroup revenue was recognised by UK insurance operations. These services are charged at appropriate arm's length prices, typically priced as a percentage of funds under management.

D: Profit before tax - Asset management operations

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

	2010 £m				2009 £m	
	M&G	US	Asia	Half year	Half year	Full year
Revenue ^{note i}	364	299	121	784	663	1,516
Charges ^{note i}	(225)	(284)	(85)	(594)	(537)	(1,163)
Profit before tax	139	15	36	190	126	353
Comprising:						
Operating profit based on longer-term investment returns ^{note ii}	143	15	36	194	125	297
Short-term fluctuations in investment returns	12	–	–	12	3	70
Actuarial losses on defined benefit pension schemes	(16)	–	–	(16)	(2)	(14)
	139	15	36	190	126	353

Notes

- i Included within M&G are realised and unrealised net investment gains/losses in respect of consolidated investment funds and Prudential Capital. The investment funds are managed on behalf of third parties and consolidated under IFRS in recognition of the control arrangements for the funds. The investment gains/losses in respect of the investment funds are non-recourse to M&G and the Group and are added back through charges. Consequently there is no impact on profit before tax. Excluding the grossing up in respect of the consolidated investment funds, the revenue for M&G would be £338 million (half year 2009: £262 million; full year 2009: £697 million) and the charges £199 million (half year 2009: £159 million; full year 2009: £403 million).
- ii M&G operating profit based on longer-term investment returns

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Asset management fee income	298	195	457
Other income	1	7	13
Staff costs	(122)	(85)	(205)
Other costs	(58)	(42)	(100)
Underlying profit before performance-related fees	119	75	165
Performance-related fees	3	–	12
Operating profit from asset management operations	122	75	177
Operating profit from Prudential Capital	21	27	61
Total M&G operating profit based on longer-term investment returns	143	102	238

The difference between the fees and other income shown above in respect of asset management operations, and the revenue figure for M&G shown in the main table primarily relates to income and investment gains/losses earned by Prudential Capital and by investment funds controlled by the asset management operations which are consolidated under IFRS.

E: Key assumptions, estimates and bases used to measure insurance assets and liabilities**i Asian insurance operations**

a In half year 2010, one-off changes made to reserving assumptions resulted in a release from liabilities of £19 million.

b In 2009, the local regulatory basis in Malaysia was replaced by the Malaysian authority's Risk-Based Capital (RBC) framework. In light of this development, the Company re-measured these liabilities by reference to the method applied under the new RBC framework which resulted in a one-off release from liabilities at 1 January 2009 of £63 million.

ii US insurance operations

a In half year 2010, half year 2009, full year 2009 and full year 2008, the operating result for Jackson was affected by net equity hedge effects in the following manner:

	2010 £m	2009 £m		2008 £m
	Half year	Half year	Full year	Full year
Result excluding equity hedge result and related amortisation of deferred acquisition costs ^{note i}	327	240	618	335
Equity hedge results net of related amortisation of deferred acquisition costs	123	(23)	(159)	71
Operating profit based on longer-term investment returns	450	217	459	406

Note

- i The result excluding the equity hedge result after amortisation of deferred acquisition costs which varies both with the underlying financial performance of the Jackson business and with the difference between the actual separate account return in the period and that assumed in the prior year DAC valuation. This acceleration or deceleration in DAC as a result of market movement is discussed further in note 5.

Equity hedge results

The equity hedge result relates to the management of the equity hedge risk within the Group's variable annuity, and to a much lesser extent fixed index annuity businesses. It primarily reflects the difference between the value movement included in operating profit on free-standing derivatives and the movement in the accounting value of liabilities for guarantees in Jackson's variable annuity products. For certain of these guarantees, namely 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. Among other factors, these differences in approach to valuing assets and liabilities give rise to variable hedging gains or losses, which for the six month period ended 30 June 2010 totalled £123 million positive after allowing for related DAC amortisation. Over the longer-term it is anticipated that such gains and losses 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.

Jackson hedges on an economic basis all embedded derivatives as well as related fees and claims, through a combination of options and futures after taking into account the natural offsets in the book. These equity related hedging instruments and the liabilities to which they relate have been included in operating results consistent with the fees and claims to which they will ultimately relate.

iii UK insurance operations - annuity business: allowance for credit risk

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

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

- the expected level of future defaults;
- the credit risk premium that is required to compensate for the potential volatility in default levels; and
- the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps.

The credit risk allowance is a function of the asset type and the credit quality of the underlying portfolio. Government bonds are generally given a credit default allowance of zero. For corporate bonds the credit allowance varies by credit rating. An analysis of the credit ratings of debt securities is included in note V.

Given that the normal business model is for Prudential's annuity business to hold bonds to match long-term liabilities, the valuation rate that is applied to discount the future annuity payments includes a liquidity premium that reflects the residual element of current bond spreads over swap rates after providing for the credit risk.

Historically, until the second half of 2007, when corporate bond spreads widened significantly, the allowance for credit risk was calculated as the long-term expected defaults and a long-term credit risk premium. This long-term credit risk was supplemented by a short-term allowance from 31 December 2007 to allow for the concern that credit ratings applied by the rating agencies may be downgraded and defaults in the short term might be higher than the long-term assumptions.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL at 30 June 2010, 30 June 2009 and 31 December 2009, based on the asset mix at the relevant balance sheet date are shown below.

	30 June 2010		
	Pillar I regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates ^{note i}	173	–	173
Credit risk allowance			
Long-term expected defaults ^{note ii}	17	–	17
Long-term credit risk premium ^{note iii}	11	–	11
Short-term allowance for credit risk ^{note iv}	39	(25)	14
Total credit risk allowance	67	(25)	42
Liquidity premium	106	25	131

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

	30 June 2009		
	Pillar I regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates ^{note i}	275	–	275
Credit risk allowance			
Long-term expected defaults ^{note ii}	24	–	24
Long-term credit risk premium ^{note iii}	15	–	15
Short-term allowance for credit risk ^{note iv}	46	(28)	18
Total credit risk allowance	85	(28)	57
Liquidity premium	190	28	218

	31 December 2009		
	Pillar I regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates ^{note i}	175	–	175
Credit risk allowance			
Long-term expected defaults ^{note ii}	19	–	19
Long-term credit risk premium ^{note iii}	13	–	13
Short-term allowance for credit risk ^{note iv}	39	(24)	15
Total credit risk allowance	71	(24)	47
Liquidity premium	104	24	128

Notes

- i Bond spread over swap rates reflect market observed data.
- ii Long-term expected defaults are derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held is based on external credit rating and for this purpose the credit rating assigned to each asset held is the lowest credit rating published by Moody's, Standard and Poors and Fitch.
- iii The long-term credit risk premium provides compensation against the risk of potential volatility in the level of defaults and is derived by applying the 95th percentile from Moody's data from 1970 to 2004 to the annuity asset portfolio.
- iv The short-term allowance for credit risk was increased substantially in 2008 to be equal to 25 per cent of the increase in corporate bond spreads as estimated from the movements in published corporate bond spreads (as estimated from the movements in published corporate bond indices) since 31 December 2006. Subsequent to this date movements have reflected events in the period, namely the impact of credit migration, the decision not to release favourable default experience, new business and asset trading amongst other items. This is demonstrated by the analyses below.
- The very prudent Pillar I regulatory basis reflects the overriding objective of ensuring sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS, on the other hand, aims to establish liabilities that are closer to 'best estimate'. IFRS default assumptions are therefore set between the EEV and Pillar I assumptions.

Factors affecting the credit risk allowance at 30 June 2010

The main factors influencing the credit risk allowance at 30 June 2010 for PRIL were as follows:

	Pillar I Regulatory basis (bps)			IFRS (bps)		
	Long term	Short term	Total	Long term	Short term	Total
Total allowance for credit risk at 31 December 2009	32	39	71	32	15	47
Credit migration	1	(1)	–	1	(1)	–
Retention of surplus from favourable default experience	–	3	3	–	1	1
Asset trading	(4)	–	(4)	(4)	–	(4)
New business	–	(1)	(1)	–	–	–
Other	(1)	(1)	(2)	(1)	(1)	(2)
Total allowance for credit risk at 30 June 2010	28	39	67	28	14	42

The reserves for credit risk allowance at 30 June 2010 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis £bn			IFRS £bn		
	Long term	Short term	Total	Long term	Short term	Total
PRIL	0.6	0.9	1.5	0.6	0.3	0.9
PAC non-profit sub-fund	0.1	0.1	0.2	0.1	0.0	0.1
Total	0.7	1.0	1.7	0.7	0.3	1.0

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

	2010 £m	2009 £m	
	Half year	Half year	Full year
Insurance operations:			
Asian ^{note ii}	41	(41)	31
US ^{note iii}	(120)	165	27
UK ^{notes i and iv}	93	(63)	108
Other operations			
– IGD hedge costs ^{note v}	–	(216)	(235)
– Other ^{note vi}	12	75	105
	12	(141)	(130)
Total	26	(80)	36

Notes

i General overview of defaults

The Group did not incur any defaults in the half year 2010 on its debt securities portfolio (half year 2009: £11 million; full year 2009: £11 million). The defaults of £11 million in the half year and full year 2009 were experienced primarily by the UK shareholder-backed annuity business. Jackson experienced less than £1 million of default losses during 2009.

ii Asian insurance operations

The fluctuations for Asian operations in the half year 2010 were a gain of £41 million (half year 2009: charge of £41 million; full year 2009: gain of £31 million) and primarily relate to unrealised gains on the shareholder debt portfolio in the period.

iii US insurance operations

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

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Short-term fluctuations relating to debt securities:			
Charges in the period ^{note a}			
Defaults	–	–	–
Losses on sales of impaired and deteriorating bonds	(100)	(44)	(6)
Bond write downs	(64)	(324)	(630)
Recoveries / reversals	3	2	5
	(161)	(366)	(631)
Less: Risk margin charge included in operating profit based on longer-term investment returns ^{note b}	36	41	76
	(125)	(325)	(555)
Interest related realised gains (losses):			
Arising in the period	169	75	125
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	(47)	(34)	(59)
	122	41	66
Related change to amortisation of deferred acquisition costs	(2)	37	75
Total short-term fluctuation related to debt securities	(5)	(247)	(414)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs) ^{note c}	111	339	385
Equity type investments: actual less longer-term return (net of related change to amortisation of deferred acquisition costs)	1	(40)	(59)
Equity-related derivatives: volatility and interest rate normalisation (net of related change to amortisation of deferred acquisition costs) ^{note d}	(238)	91	85
Other items (net of related change to amortisation of deferred acquisition costs)	11	22	30
Total	(120)	165	27

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

- a The charges in the period relating to debt securities of Jackson comprise the following:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Residential mortgage-backed securities:			
Prime	7	123	268
Alt-A	26	98	192
Sub-prime	6	18	49
Total residential mortgage-backed securities	39	239	509
Piedmont securities	25	5	30
Corporates	–	80	91
Losses on sales of impaired and deteriorating bonds net of recoveries	97	42	1
Total	161	366	631

Jackson experienced no bond default losses during the first half of 2010.

- b The risk margin reserve (RMR) charge for longer-term credit related losses for half year 2010 is based on an average annual RMR of 25 basis points (half year 2009: 28 basis points; full year 2009: 27 basis points) on an average book value of US\$43.7 billion (half year 2009: US\$44.1 billion; full year 2009: US\$43.9 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of RMBS)	Half year 2010				Half year 2009				Full year 2009			
	Average book value US\$m	RMR %	Annual expected losses		Average book value US\$m	RMR %	Annual expected losses		Average book value US\$m	RMR %	Annual expected losses	
			US\$m	£m			US\$m	£m			US\$m	£m
A3 or higher	20,142	0.06	(11)	(7)	19,780	0.02	(4)	(3)	19,509	0.03	(5)	(3)
Baa1, 2 or 3	20,747	0.25	(51)	(33)	20,955	0.22	(47)	(32)	21,072	0.23	(47)	(30)
Ba1, 2 or 3	2,016	1.04	(21)	(14)	1,947	1.17	(23)	(16)	2,035	1.13	(23)	(15)
B1, 2 or 3	505	2.97	(15)	(10)	609	2.86	(17)	(11)	594	2.86	(17)	(11)
Below B3	339	3.87	(13)	(8)	769	3.93	(30)	(20)	691	3.91	(27)	(17)
Total	43,749	0.25	(111)	(72)	44,060	0.28	(121)	(82)	43,901	0.27	(119)	(76)
Related change to amortisation of deferred acquisition costs			28	18			23	16			25	16
Risk margin reserve charge for longer-term credit related losses			(83)	(54)			(98)	(66)			(94)	(60)

For the period ended 30 June 2010, Jackson has continued the practice commenced in the second half of 2009 in relation to RMBS to determine the risk margin charge included in operating profit based on longer-term investment returns using the regulatory rating as determined by a third party, PIMCO on behalf of the National Association of Insurance Commissioners (NAIC). See note C for further information.

The longer-term rates of return for equity-type investments are currently based on spreads over 10 year US treasury rates of 400 to 600 basis points. The longer-term rates of return for equity-type investments ranged from 7.0 per cent to 9.9 per cent at 30 June 2010, 6.7 per cent to 9.6 per cent at 30 June 2009 and 6.7 per cent to 9.9 per cent at 31 December 2009 depending on the type of investments.

Except for the effect of the difference between current period and longer-term levels of implied equity volatility and AA corporate bond yield curves, market value movements on equity-based derivatives and embedded derivatives are also recorded within operating profits based on longer-term investment returns so as to be consistent with the market related effects on fees and reserve movements for equity-based products. Market value movements on other derivatives are excluded from operating profit, and are included in short-term fluctuations in investment returns.

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

- c The gain of £111 million (half year 2009: gain of £339 million; full year 2009: gain of £385 million) is for value movement of freestanding derivatives held to manage the fixed annuity and other general account business. Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement.

Except for the effect of the difference between current period and longer-term levels of implied equity volatility and AA corporate bond yield curves, derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns to broadly match with the commercial effects to which the variable annuity derivative programme relates, (subject to some limitations to GMDB and certain GMWB liabilities where US GAAP does not fully reflect the economic features being hedged). Other derivative value movements are separately identified within short-term fluctuations in investment returns.

For the derivatives programme attaching to the fixed annuity and other general account business the Group has continued in its approach of not seeking to apply hedge accounting under IAS 39. This decision reflects the inherent constraints of IAS 39 for hedge accounting investments and life assurance assets and liabilities under 'grandfathered' US GAAP under IFRS 4.

- d The £238 million loss (half year 2009: gain of £91 million; full year 2009: gain of £85 million) for equity-related derivatives is for the normalisation of value movements for freestanding and embedded derivatives. This normalisation reflects the inclusions of longer-term implied equity volatility levels and also, for embedded derivatives 10 year average AA corporate bond yield curves in the value movement included in operating profits. The effect of the difference between actual levels of implied equity volatility and end of period AA corporate bond yield curves is reflected in short-term fluctuations in investment return.

In addition, for US insurance operations, included within the statement of comprehensive income is an increase in net unrealised gains on debt securities classified as available-for-sale of £1,144 million (half year 2009: reduction in net unrealised losses of £808 million; full year 2009: reduction in net unrealised losses of £2,669 million). These temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note W.

iv UK insurance operations

The half year 2010 short-term fluctuations gain for UK insurance operations of £93 million reflects asset value movements principally on the shareholder-backed annuity business (half year 2009: loss of £63 million; full year 2009 gain: of £108 million).

v IGD hedge costs

During the severe equity market conditions experienced in the first quarter of 2009 coupled with historically high equity volatility, the Group entered into exceptional short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to the regular operational hedging programmes. The hedge contracts expired in 2009 and have not been renewed.

vi Other operations

Short-term fluctuations of other operations, in addition to the previously discussed IGD hedge costs, arise from:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	–	69	28
Unrealised value movements on Prudential Capital bond portfolio	12	2	66
Unrealised value movements on investments held by other operations	–	4	11
Total	12	75	105

G: Costs of terminated AIA transaction

The following costs were incurred in relation to the proposed, and now terminated transaction, to purchase AIA Group Limited and related rights issue.

	2010 £m Half year
Termination break fee	153
Underwriting fees	58
Costs associated with foreign exchange hedging	100
Adviser fees and other	66
Total costs before tax	377
Associated tax relief	(93)
Total costs after tax	284

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

H: Acquisition costs and other expenditure

	2010 £m Half year	2009 £m	
		Half year	Full year
Net acquisition costs incurred less deferred	423	397	728
Amortisation of acquisition costs	378	441	305
Other expenditure	1,839	1,444	2,924
Movements in amounts attributable to external unit holders	14	164	615
Total acquisition costs and other expenditure	2,654	2,446	4,572

I: Allocation of investment return between policyholders and shareholders

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, to policyholders or to the unallocated surplus of with-profits funds, the latter two of which have no net impact on shareholders' profit. The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	2010 £m	2009 £m	
	Half year	Half year	Full year
Asian operations			
Policyholders returns			
Assets backing unit-linked liabilities	(4)	1,108	2,539
With-profits business	34	507	1,519
	30	1,615	4,058
Shareholder returns	209	188	373
Total	239	1,803	4,431
US operations			
Policyholders returns			
Assets held to back (separate account) unit-linked liabilities	(981)	772	3,760
Shareholder returns			
Realised gains and losses (including impairment losses on available-for-sale bonds)	14	(300)	(529)
Value movements on derivative hedging programme for general account business	149	372	340
Interest/dividend income and value movements on other financial instruments for which fair value movements are booked in the income statement	787	1,073	1,567
	950	1,145	1,378
Total	(31)	1,917	5,138
UK operations			
Policyholders returns			
Scottish Amicable Insurance Fund (SAIF)	304	(29)	1,438
Assets held to back unit-linked liabilities	423	122	2,947
With-profits fund (excluding SAIF)	2,576	(471)	10,461
	3,303	(378)	14,846
Shareholder returns			
Prudential Retirement Income Limited (PRIL)	1,150	330	1,827
Other business	463	78	1,113
	1,613	408	2,940
Total	4,916	30	17,786
Unallocated corporate			
Shareholder returns	(97)	(125)	(466)
Group Total			
Policyholder returns	2,352	2,009	22,664
Shareholder returns	2,675	1,616	4,225
Total	5,027	3,625	26,889

The returns as shown in the table above are delineated between those returns allocated to policyholders and those allocated to shareholders. In making this distinction, returns allocated to policyholders are those from investments in which shareholders have no direct economic interest, namely:

- Unit-linked business in the UK, Asia and SAIF in the UK, for which the investment return is wholly attributable to policyholders;
- Separate account business of US operations, the investment return of which is also wholly attributable to policyholders; and
- With-profits business (excluding SAIF) in the UK and Asia (in which the shareholders' economic interest, and the basis of recognising IFRS basis profits, is restricted to a share of the actuarially determined surplus for distribution (in the UK ten per cent)). Except for this surplus the investment return of the with-profit funds is attributable to policyholders (through the asset-share liabilities) or the unallocated surplus, which is accounted for as a liability under IFRS 4.

The investment return related to the types of business above does not impact shareholders' profits directly. However, there is an indirect impact, for example, investment-related fees or the effect of investment return on the shareholders' share of the cost of bonuses of with-profits funds.

Investment returns for unit-linked and similar products have reciprocal impact on benefits and claims, with a decrease in market returns on the attached pool of assets affecting policyholder benefits on these products. Similarly for with-profits funds there is a close correlation between increases or decreases in investment returns and the level of combined charge for policyholder benefits and movement on unallocated surplus that arises from such returns.

Shareholder returns

For shareholder-backed non-participating business of the UK (comprising PRIL and other non-linked non-participating business) and of the Asian operations, the investment return is not directly attributable to policyholders and therefore does impact shareholders' profit directly. However, it should be noted that for UK shareholder-backed annuity business, principally PRIL, where the durations of asset and liability cash flows are closely matched, the discount rate applied to measure liabilities to policyholders (under 'grandfathered' UK GAAP and under IFRS 4) reflects movements in asset yields (after allowances for the future defaults) of the backing portfolios. Therefore, the net impact on the shareholders' profits of the investment return of the assets backing liabilities of the UK shareholder-backed annuity business is after taking into account the consequential effect on the movement in policyholder liabilities.

Changes in shareholder investment returns for US operations reflect primarily movements in the investment income, movements in the value of the derivative instruments held to manage the general account assets and liability portfolio, and realised gains and losses. However, separately, reflecting Jackson's types of business, an allocation is made to policyholders through the application of crediting rates. The shareholder investment return for US operations also includes the fair value movement of the derivatives and the movement on the related liabilities of the variable annuity guarantees under Jackson's dynamic hedging programme.

The majority of the investments held to back the US non-participating business are debt securities for which the available-for-sale designation is applied for IFRS basis reporting. Under this designation the return included in the income statement reflects the aggregate of investment income and realised gains and losses (including impairment losses). However, movements in unrealised appreciation or depreciation are recognised in other comprehensive income. The return on these assets is attributable to shareholders.

J: Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance

Benefits and claims represent payments, including final bonuses, to policyholders in respect of maturities, surrenders and deaths plus the change in technical provisions (which primarily represents the movement in amounts owed to policyholders). Benefits and claims are amounts attributable to policyholders. The movement in unallocated surplus of with-profits funds represents the transfer to (from) the unallocated surplus each year through a charge (credit) to the income statement of the annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders.

Benefits and claims and movements in unallocated surplus of with-profits funds net of reinsurance can be further analysed as follows:

	Half year 2010 £m			
	Asia	US	UK	Total
Claims incurred	(1,202)	(2,296)	(5,000)	(8,498)
Increase in policyholder liabilities	(876)	(2,556)	(1,860)	(5,292)
Movement in unallocated surplus of with-profits funds	(92)	–	232	140
	(2,170)	(4,852)	(6,628)	(13,650)

	Half year 2009 £m			
	Asia	US	UK	Total
Claims incurred	(847)	(2,207)	(4,964)	(8,018)
Movement in policyholder liabilities	(2,174)	(2,778)	869	(4,083)
Movement in unallocated surplus of with-profits funds	(568)	–	1,886	1,318
	(3,589)	(4,985)	(2,209)	(10,783)

	Full year 2009 £m			
	Asia	US	UK	Total
Claims incurred	(1,814)	(4,092)	(9,875)	(15,781)
Increase in policyholder liabilities	(6,230)	(9,193)	(8,432)	(23,855)
Movement in unallocated surplus of with-profits funds	334	–	(1,893)	(1,559)
	(7,710)	(13,285)	(20,200)	(41,195)

K: Sale of the Taiwan agency business in 2009

In half year 2009, the Company sold the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT\$1. In addition, the Company invested £45 million to purchase a 9.99 per cent stake in China Life through a share placement. The sale was completed on 19 June 2009.

The Company retained its interest in life insurance business in Taiwan through its retained bank distribution partnerships and its direct investment of 9.99 per cent in China Life.

The effects on the IFRS income statement was a pre-tax loss of £621 million comprising a loss on sale of £559 million and trading losses before tax up to the date of sale of £62 million. After allowing for tax and other adjustments, the reduction to shareholders equity was £607 million.

The loss on sale of £559 million included cumulative foreign exchange gains of £9 million recycled through the profit and loss account as required by IAS 21.

L: Tax**i Tax (charge) credit**

The total tax charge comprises:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Tax (charge) credit			
UK tax	6	69	(895)
Overseas tax	(166)	(172)	22
Total tax charge	(160)	(103)	(873)

An analysis of the total tax expense attributable to continuing operations recognised in the income statement by nature of expense is as follows:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Current tax	(157)	(32)	(529)
Deferred tax	(3)	(71)	(344)
Total tax charge	(160)	(103)	(873)

The current tax charge of £157 million includes £5 million for half year 2010 (half year 2009: charge of £2 million; full year 2009: charge of £6 million) in respect of tax to be paid in Hong Kong. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) five per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £149 million for half year 2010 (half year 2009: charge of £182 million; full year 2009: charge of £55 million) comprises:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Tax (charge) credit attributable to shareholders			
UK tax	10	(53)	(176)
Overseas tax	(159)	(129)	121
Total tax charge	(149)	(182)	(55)

ii Deferred tax assets and liabilities

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

	30 Jun 2010 £m		30 Jun 2009 £m		31 Dec 2009 £m	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Unrealised gains and losses on investments	982	(2,041)	875	(609)	1,156	(1,744)
Balance relating to investment and insurance contracts	16	(848)	12	(861)	20	(961)
Short-term timing differences	1,414	(1,216)	1,131	(1,173)	1,228	(1,159)
Capital allowances	17	(10)	36	(8)	18	(8)
Unused tax losses	262	–	95	–	286	–
Total	2,691	(4,115)	2,149	(2,651)	2,708	(3,872)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The increase in deferred tax liabilities is primarily due to an increase in the value of unrealised gains in the available-for-sale securities in Jackson.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2010 half year results and financial position at 30 June 2010, the possible tax benefit of approximately £267 million (30 June 2009: £234 million; 31 December 2009: £257 million), which may arise from capital losses valued at approximately £1.2 billion (30 June 2009: £1.1 billion; 31 December 2009: £1.2 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £361 million (30 June 2009: £816 million; 31 December 2009: £607 million), which may arise from tax losses and other potential temporary differences totalling £1.4 billion (30 June 2009: £2.8 billion; 31 December 2009: £2.1 billion) is sufficiently uncertain that it has not been recognised. Forecasts as to when the tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods. Accordingly, the deferred tax amounts for half year 2010 do not reflect the UK government's proposal announced in June 2010 to reduce the main UK corporation tax rate by one per cent a year for each of the next four years as the change has yet to be enacted.

The UK government's tax rate change to 27 per cent and subsequent proposed phased rate changes to 24 per cent are expected to have an effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances as at 30 June 2010 by £10 million (change to 27 per cent) and £41 million (change to 24 per cent).

L: Tax continued

iii Reconciliation of tax charge on profit (loss) attributable to shareholders for continuing operations

	Half year 2010 £m				Total
	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns ^{note iii}	259	450	330	(71)	968
Short-term fluctuations in investment returns	41	(120)	93	12	26
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(8)	(16)	(24)
Costs of terminated AIA transaction	–	–	–	(377)	(377)
Total	300	330	415	(452)	593
Expected tax rate: ^{note i}					
Operating profit based on longer-term investment returns ^{note iii}	26%	35%	28%	28%	31%
Short-term fluctuations in investment returns	26%	35%	28%	28%	8%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	28%	28%	25%
Costs of terminated AIA transaction	–	–	–	28%	28%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns ^{note iii}	(67)	(158)	(92)	20	(297)
Short-term fluctuations in investment returns	(11)	42	(26)	(3)	2
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	2	4	6
Costs of terminated AIA transaction	–	–	–	106	106
Total	(78)	(116)	(116)	127	(183)
Variance from expected tax charge: ^{note ii}					
Operating profit based on longer-term investment returns ^{note iii}	28	27	(3)	–	52
Short-term fluctuations in investment returns	5	(5)	(1)	(4)	(5)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	–	–
Costs of terminated AIA transaction	–	–	–	(13)	(13)
Total	33	22	(4)	(17)	34
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns ^{note iii}	(39)	(131)	(95)	20	(245)
Short-term fluctuations in investment returns	(6)	37	(27)	(7)	(3)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	2	4	6
Costs of terminated AIA transaction	–	–	–	93	93
Total	(45)	(94)	(120)	110	(149)
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	29%	29%	28%	25%
Total	15%	29%	29%	24%	25%

	Half year 2009 £m				Total
	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	
(Loss) profit before tax attributable to shareholders:					
Operating profit based on longer-term investment returns, net of attributable restructuring costs and development expenses ^{note iii}	207	217	330	(66)	688
Short-term fluctuations in investment returns	(41)	165	(63)	(141)	(80)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	(63)	(63)
Loss on sale and results for Taiwan agency business	(621)	–	–	–	(621)
Total	(455)	382	267	(270)	(76)
Expected tax rate:^{note i}					
Operating profit based on longer-term investment returns ^{note iii}	24%	35%	28%	28%	29%
Short-term fluctuations in investment returns	25%	35%	28%	39%	31%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	28%	28%
Loss on sale and results for Taiwan agency business	25%	–	–	–	25%
Expected tax credit (charge) based on expected tax rates:					
Operating profit based on longer-term investment returns ^{note iii}	(50)	(76)	(92)	18	(200)
Short-term fluctuations in investment returns	10	(58)	18	55	25
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	18	18
Loss on sale and results for Taiwan agency business	155	–	–	–	155
Total	115	(134)	(74)	91	(2)
Variance from expected tax charge:^{note ii}					
Operating profit based on longer-term investment returns ^{note iii}	16	19	(11)	(5)	19
Short-term fluctuations in investment returns	(4)	(61)	3	1	(61)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	(1)	(1)
Loss on sale and results for Taiwan agency business	(137)	–	–	–	(137)
Total	(125)	(42)	(8)	(5)	(180)
Actual tax credit (charge):					
Operating profit based on longer-term investment returns ^{note iii}	(34)	(57)	(103)	13	(181)
Short-term fluctuations in investment returns	6	(119)	21	56	(36)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	17	17
Loss on sale and results for Taiwan agency business	18	–	–	–	18
Total	(10)	(176)	(82)	86	(182)
Actual tax rate:					
Operating profit based on longer-term investment returns	16%	26%	31%	20%	26%
Total	(2)%	46%	31%	32%	(239)%

L: Tax continued

	Full year 2009 £m				Total
	Asian insurance operations	US insurance operations	UK insurance operations	Other operations	
Profit (loss) before tax attributable to shareholders:					
Operating profit based on longer-term investment returns ^{note iii}	410	459	657	(121)	1,405
Short-term fluctuations in investment returns	31	27	108	(130)	36
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	(46)	(28)	(74)
Loss on sale and results for Taiwan agency business	(621)	–	–	–	(621)
Total	(180)	486	719	(279)	746
Expected tax rate: ^{note i}					
Operating profit based on longer-term investment returns ^{note iii}	24%	35%	28%	28%	29%
Short-term fluctuations in investment returns	25%	35%	28%	36%	0%
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	28%	28%	28%
Loss on sale and results for Taiwan agency business	25%	–	–	–	25%
Expected tax (charge) credit based on expected tax rates:					
Operating profit based on longer-term investment returns ^{note iii}	(98)	(161)	(184)	34	(409)
Short-term fluctuations in investment returns	(8)	(9)	(30)	47	–
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	13	8	21
Loss on sale and results for Taiwan agency business	155	–	–	–	155
Total	49	(170)	(201)	89	(233)
Variance from expected tax charge: ^{note ii}					
Operating profit based on longer-term investment returns ^{note iii}	35	77	(29)	8	91
Short-term fluctuations in investment returns	15	195	–	14	224
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	–	–	–
Loss on sale and results for Taiwan agency business	(137)	–	–	–	(137)
Total	(87)	272	(29)	22	178
Actual tax (charge) credit:					
Operating profit based on longer-term investment returns ^{note iii}	(63)	(84)	(213)	42	(318)
Short-term fluctuations in investment returns	7	186	(30)	61	224
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	–	–	13	8	21
Loss on sale and results for Taiwan agency business	18	–	–	–	18
Total	(38)	102	(230)	111	(55)
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	18%	32%	35%	23%
Total	(21)%	(21)%	32%	40%	7%

Notes

- i Expected tax rates for profit (loss) attributable to shareholders:
- The expected tax rates shown in the table above reflect the corporation tax rates generally applied to taxable profits of the relevant country jurisdictions.
 - For Asian operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profits of operations contributing to the aggregate business result.
 - The expected tax rate for Other operations reflects the mix of business between UK and overseas operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profits.
- ii For half year 2010, the principal variances arise from a number of factors, including:
- a Asian long-term operations
- For half year 2010 and full year 2009, profits in certain countries which are not taxable partly offset by the inability to fully recognise deferred tax assets on losses being carried forward. For half year 2009, adjustments in respect of prior year tax charges and profits in certain countries which are not taxable.

b Jackson

For half year 2010, the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business. For half year 2009, the inability to fully recognise deferred tax assets on losses being carried forward partially offset by the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business. For full year 2009, the ability to fully recognise deferred tax assets on losses brought forward which we were previously unable to recognise together with income subject to a lower level of taxation and the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business.

c UK insurance operations

For half year 2010, different tax bases of UK life business. For half year 2009 and full year 2009, adjustments in respect of prior year tax charge and different tax bases of UK life business.

d Other operations

For half year 2010, the inability to fully recognise a tax credit in respect of non-deductible capital costs incurred in relation to the terminated AIA transaction. For half year 2009, the inability to recognise a deferred tax asset on various tax losses. For full year 2009, the ability to recognise a deferred tax asset on various tax losses which we were previously unable to recognise offset by adjustments in respect of the prior year tax charge.

e For half year 2009 and full year 2009, the actual tax rate in relation to Asia excluding the result for the sold Taiwan agency business would have been six per cent and 13 per cent respectively.

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

M: Supplementary analysis of earnings per share

	Half year 2010					
	Before tax note C £m	Tax note L £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	968	(245)	(2)	721	28.6p	28.6p
Short-term fluctuations in investment returns on shareholder-backed business	26	(3)	–	23	0.9p	0.9p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(24)	6	–	(18)	(0.7)p	(0.7)p
Costs of terminated AIA transaction	(377)	93	–	(284)	(11.3)p	(11.3)p
Based on profit for the period from continuing operations	593	(149)	(2)	442	17.5p	17.5p
	Half year 2009					
	Before tax note C £m	Tax note L £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	688	(181)	4	511	20.5p	20.5p
Short-term fluctuations in investment returns on shareholder-backed business	(80)	(36)	–	(116)	(4.7)p	(4.7)p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(63)	17	–	(46)	(1.8)p	(1.8)p
Adjustment from loss on sale and result of Taiwan agency business	(621)	18	–	(603)	(24.2)p	(24.2)p
Based on loss for the period from continuing operations	(76)	(182)	4	(254)	(10.2)p	(10.2)p

M: Supplementary analysis of earnings per share continued

	Full year 2009					
	Before tax note C £m	Tax note L £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Based on operating profit based on longer-term investment returns	1,405	(318)	(2)	1,085	43.4p	43.3p
Short-term fluctuations in investment returns on shareholder-backed business	36	224	1	261	10.4p	10.4p
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(74)	21	–	(53)	(2.1)p	(2.1)p
Adjustment from loss on sale and result of Taiwan agency business	(621)	18	–	(603)	(24.1)p	(24.0)p
Based on profit for the year from continuing operations	746	(55)	(1)	690	27.6p	27.6p
Adjustment for post-tax results of discontinued operations*	(14)	–	–	(14)	(0.6)p	(0.6)p
Based on profit for the year	732	(55)	(1)	676	27.0p	27.0p

*The full year 2009 charge which was net of £nil tax, reflected completion adjustments for a previously disposed business.

The weighted average number of shares for calculating basic earnings per share for the half year 2010 was 2,520 million (half year 2009: 2,489 million; full year 2009: 2,501 million). The weighted average number of shares for calculating diluted earnings per share for the half year 2010 was 2,524 million (half year 2009: 2,489 million; full year 2009: 2,506 million). In addition, at 30 June 2009, there were 13 million shares under option offset by 12 million shares that would have been issued at fair value on assumed option exercise. The net one million potentially dilutive ordinary shares have been excluded from the half year 2009 diluted earnings per share calculation as their inclusion would have decreased the loss per share.

N: Dividends

Dividends per share (in pence)	2010	2009	
	Half year	Half year	Full year
Dividends relating to reporting period:			
Interim dividend (2010 and 2009)	6.61p	6.29p	6.29p
Second interim dividend (2009)	–	–	13.56p
Total	6.61p	6.29p	19.85p
Dividends declared and paid in reporting period:			
Current year interim dividend	–	–	6.29p
Second interim/final dividend for prior year	13.56p	12.91p	12.91p
Total	13.56p	12.91p	19.20p

Dividends are recorded in the period in which they are declared. The first interim dividend for the year ended 31 December 2009 of 6.29 pence per ordinary share was paid to eligible shareholders on 24 September 2009 and the second interim dividend of 13.56 pence per ordinary share for the same period was paid to eligible shareholders on 27 May 2010.

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 p.m. 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 p.m. 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 p.m. 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 dividend will distribute an estimated £168 million of shareholders' funds.

O: Group statement of financial position analysis

i Group statement of financial position

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

The analysis is shown below for the Group statement of financial position by operating segment at 30 June 2010.

	2010 £m								2009 £m	
	Insurance operations			Total insurance operations	Asset management operations note P IV	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total	31 Dec Group total
	UK	US	Asia							
Assets										
Intangible assets attributable to shareholders:										
Goodwill ^R	–	–	235	235	1,230	–	–	1,465	1,310	1,310
Deferred acquisition costs and other intangible assets ^S	128	2,950	942	4,020	8	–	–	4,028	4,045	4,049
Total	128	2,950	1,177	4,255	1,238	–	–	5,493	5,355	5,359
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	124	–	–	124	–	–	–	124	159	124
Deferred acquisition costs and other intangible assets	8	–	102	110	–	–	–	110	111	106
Total	132	–	102	234	–	–	–	234	270	230
Total	260	2,950	1,279	4,489	1,238	–	–	5,727	5,625	5,589
Deferred tax assets ^L	253	1,828	96	2,177	133	381	–	2,691	2,149	2,708
Other non-investment and non-cash assets	4,690	1,409	992	7,091	884	4,178	(5,801)	6,352	5,608	5,425
Investments of long-term business and other operations:										
Investment properties	11,322	27	11	11,360	–	–	–	11,360	10,479	10,905
Investments accounted for using the equity method	4	–	5	9	–	–	–	9	6	6
Financial investments:										
Loans ^U	2,214	4,537	1,383	8,134	1,453	–	–	9,587	8,613	8,754
Equity securities and portfolio holdings in unit trusts	34,668	24,629	12,323	71,620	155	–	–	71,775	56,069	69,354
Debt securities ^V	72,072	27,371	12,425	111,868	1,466	–	–	113,334	89,399	101,751
Other investments	4,323	1,684	427	6,434	195	139	–	6,768	6,085	5,132
Deposits	8,401	359	952	9,712	54	–	–	9,766	8,806	12,820
Total Investments	133,004	58,607	27,526	219,137	3,323	139	–	222,599	179,457	208,722
Properties held-for sale	–	3	–	3	–	–	–	3	5	3
Cash and cash equivalents	3,128	153	1,010	4,291	1,076	673	–	6,040	6,542	5,307
Total assets	141,335	64,950	30,903	237,188	6,654	5,371	(5,801)	243,412	199,386	227,754

O: Group statement of financial position analysis continued

	2010 £m							2009 £m		
	Insurance operations			Total insurance operations	Asset management operations note P iv	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total	31 Dec Group total
	UK	US	Asia							
Equity and liabilities										
Equity										
Shareholders' equity	1,937	3,905	1,992	7,834	1,711	(2,384)	–	7,161	4,720	6,271
Non-controlling interests	32	–	2	34	3	–	–	37	29	32
Total equity	1,969	3,905	1,994	7,868	1,714	(2,384)	–	7,198	4,749	6,303
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	118,180	55,253	25,480	198,913	–	–	–	198,913	165,047	186,398
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	10,014	–	52	10,066	–	–	–	10,066	7,061	10,019
Total policyholder liabilities and unallocated surplus of with-profits funds	128,194	55,253	25,532	208,979	–	–	–	208,979	172,108	196,417
Core structural borrowings of shareholder financed operations:										
Subordinated debt	–	–	–	–	–	2,767	–	2,767	2,198	2,691
Other	–	166	–	166	–	549	–	715	701	703
Total^x	–	166	–	166	–	3,316	–	3,482	2,899	3,394
Operational borrowings attributable to shareholder financed operations ^y	159	171	195	525	143	2,566	–	3,234	2,855	2,751
Borrowings attributable to with-profits operations ^y	1,313	–	–	1,313	–	–	–	1,313	1,349	1,284
Deferred tax liabilities ^z	1,283	2,254	425	3,962	5	148	–	4,115	2,651	3,872
Other non-insurance liabilities	8,417	3,201	2,757	14,375	4,792	1,725	(5,801)	15,091	12,775	13,733
Total liabilities	139,366	61,045	28,909	229,320	4,940	7,755	(5,801)	236,214	194,637	221,451
Total equity and liabilities	141,335	64,950	30,903	237,188	6,654	5,371	(5,801)	243,412	199,386	227,754

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

	2010 £m						2009 £m		
	Participating funds	Shareholder-backed business		Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total	31 Dec Group total
Assets									
Intangible assets attributable to shareholders:									
Goodwill ^R	–	–	235	1,230	–	–	1,465	1,310	1,310
Deferred acquisition costs and other intangible assets ^S	–	–	4,020	8	–	–	4,028	4,045	4,049
Total	–	–	4,255	1,238	–	–	5,493	5,355	5,359
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	124	–	–	–	–	–	124	159	124
Deferred acquisition costs and other intangible assets	110	–	–	–	–	–	110	111	106
Total	234	–	–	–	–	–	234	270	230
Total	234	–	4,255	1,238	–	–	5,727	5,625	5,589
Deferred tax assets ^L	113	–	2,064	133	381	–	2,691	2,149	2,708
Other non-investment and non-cash assets	2,448	807	3,836	884	4,178	(5,801)	6,352	5,608	5,425
Investments of long-term business and other operations:									
Investment properties	9,169	717	1,474	–	–	–	11,360	10,479	10,905
Investments accounted for using the equity method	–	–	9	–	–	–	9	6	6
Financial investments:									
Loans ^U	2,072	–	6,062	1,453	–	–	9,587	8,613	8,754
Equity securities and portfolio holdings in unit trusts	27,119	43,875	626	155	–	–	71,775	56,069	69,354
Debt securities ^V	51,888	8,325	51,655	1,466	–	–	113,334	89,399	101,751
Other investments	4,153	90	2,191	195	139	–	6,768	6,085	5,132
Deposits	6,703	807	2,202	54	–	–	9,766	8,806	12,820
Total Investments	101,104	53,814	64,219	3,323	139	–	222,599	179,457	208,722
Properties held-for-sale	–	–	3	–	–	–	3	5	3
Cash and cash equivalents	2,140	1,292	859	1,076	673	–	6,040	6,542	5,307
Total assets	106,039	55,913	75,236	6,654	5,371	(5,801)	243,412	199,386	227,754

O: Group statement of financial position analysis continued

	2010 £m						2009 £m		
	Participating funds	Shareholder-backed business			Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun Group total	30 Jun Group total	31 Dec Group total
Unit-linked and variable annuity		Non-linked business	Asset management operations						
Equity and liabilities									
Equity									
Shareholders' equity	–	–	7,834	1,711	(2,384)	–	7,161	4,720	6,271
Non-controlling interests	32	–	2	3	–	–	37	29	32
Total equity	32	–	7,836	1,714	(2,384)	–	7,198	4,749	6,303
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	87,740	54,602	56,571	–	–	–	198,913	165,047	186,398
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	10,066	–	–	–	–	–	10,066	7,061	10,019
Total policyholder liabilities and unallocated surplus of with-profits funds	97,806	54,602	56,571	–	–	–	208,979	172,108	196,417
Core structural borrowings of shareholder-financed operations:									
Subordinated debt	–	–	–	–	2,767	–	2,767	2,198	2,691
Other	–	–	166	–	549	–	715	701	703
Total^X	–	–	166	–	3,316	–	3,482	2,899	3,394
Operational borrowings attributable to shareholder financed operations ^Y	–	–	525	143	2,566	–	3,234	2,855	2,751
Borrowings attributable to with-profits operations ^Y	1,313	–	–	–	–	–	1,313	1,349	1,284
Deferred tax liabilities ^Z	1,226	12	2,724	5	148	–	4,115	2,651	3,872
Other non-insurance liabilities	5,662	1,299	7,414	4,792	1,725	(5,801)	15,091	12,775	13,733
Total liabilities	106,007	55,913	67,400	4,940	7,755	(5,801)	236,214	194,637	221,451
Total equity and liabilities	106,039	55,913	75,236	6,654	5,371	(5,801)	243,412	199,386	227,754

P: Statement of financial position

i UK insurance operations

Overview

- In order to reflect the different types of UK business and fund structure, the statement of financial position of the UK insurance operations analyses assets and liabilities between those of the Scottish Amicable Insurance Fund (SAIF), the PAC with-profits sub-fund (WPSF), unit-linked assets and liabilities and annuity and other long-term business (see table below).
- £90 billion of the £133 billion of investments are held by SAIF and the PAC WPSF. Shareholders are exposed only indirectly to value movements on these assets.

	PAC with-profits sub-fund (WPSF) ^{note i}				Other funds and subsidiaries			2010		2009	
	Scottish Amicable Insurance Fund ^{note ii}	Excluding Prudential Annuities Limited	Prudential Annuities Limited ^{note iii}	Total ^{note iv}	Unit-linked assets and liabilities	Annuity and other long-term business	Total	30 Jun Total	30 Jun Total	31 Dec Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Assets											
Intangible assets attributable to shareholders:											
Deferred acquisition costs and other intangible assets ^S	–	–	–	–	–	128	128	128	132	127	
	–	–	–	–	–	128	128	128	132	127	
Intangible assets attributable to PAC with-profits fund:											
In respect of acquired subsidiaries for venture fund and other investment purposes	–	124	–	124	–	–	–	124	159	124	
Deferred acquisition costs	1	7	–	7	–	–	–	8	13	9	
	1	131	–	131	–	–	–	132	172	133	
Total	1	131	–	131	–	128	128	260	304	260	
Deferred tax assets	2	104	7	111	–	140	140	253	385	292	
Other non-investment and non-cash assets	495	1,280	300	1,580	627	1,988	2,615	4,690	4,081	3,074	
Investments of long-term business and other operations:											
Investment properties	740	7,739	690	8,429	717	1,436	2,153	11,322	10,455	10,861	
Investments accounted for using the equity method	–	–	–	–	–	4	4	4	–	4	
Financial investments											
Loans ^U	136	912	141	1,053	–	1,025	1,025	2,214	1,689	1,815	
Equity securities and portfolio holdings in unit trusts	2,637	20,231	226	20,457	11,538	36	11,574	34,668	32,853	37,051	
Debt securities ^V	4,930	28,061	12,907	40,968	5,628	20,546	26,174	72,072	59,231	67,772	
Other investments ^{note v}	354	3,489	180	3,669	67	233	300	4,323	4,216	3,630	
Deposits	704	5,415	557	5,972	523	1,202	1,725	8,401	7,668	11,557	
Total investments	9,501	65,847	14,701	80,548	18,473	24,482	42,955	133,004	116,112	132,690	
Properties held-for-sale	–	–	–	–	–	–	–	–	5	–	
Cash and cash equivalents	204	1,533	53	1,586	1,060	278	1,338	3,128	2,873	2,265	
Total assets	10,203	68,895	15,061	83,956	20,160	27,016	47,176	141,335	123,760	138,581	

P: Statement of financial position continued

	PAC with-profits sub-fund (WPSF) ^{note i}				Other funds and subsidiaries			2010		2009	
	Scottish Amicable Insurance Fund ^{note ii}	Excluding Prudential Annuities Limited	Prudential Annuities Limited ^{note iii}	Total ^{note iv}	Unit-linked assets and liabilities	Annuity and other long-term business	Total	30 Jun Total	30 Jun Total	31 Dec Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Equity and liabilities											
Equity											
Shareholders' equity	–	–	–	–	–	1,937	1,937	1,937	1,749	1,939	
Non-controlling interests	–	32	–	32	–	–	–	32	26	28	
Total equity	–	32	–	32	–	1,937	1,937	1,969	1,775	1,967	
Liabilities											
Policyholder liabilities and unallocated surplus of with-profits funds:											
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	9,626	55,571	12,433	68,004	19,456	21,094	40,550	118,180	105,369	116,229	
Unallocated surplus of with-profits funds (reflecting application of 'realistic' provisions for UK regulated with-profits funds) ^{note vi}	–	8,306	1,708	10,014	–	–	–	10,014	7,015	9,966	
Total	9,626	63,877	14,141	78,018	19,456	21,094	40,550	128,194	112,384	126,195	
Operational borrowings attributable to shareholder-financed operations	–	–	–	–	–	159	159	159	28	158	
Borrowings attributable to with-profits funds ^v	118	1,195	–	1,195	–	–	–	1,313	1,349	1,284	
Deferred tax liabilities	56	663	210	873	–	354	354	1,283	1,198	1,606	
Other non-insurance liabilities	403	3,128	710	3,838	704	3,472	4,176	8,417	7,026	7,371	
Total liabilities	10,203	68,863	15,061	83,924	20,160	25,079	45,239	139,366	121,985	136,614	
Total equity and liabilities	10,203	68,895	15,061	83,956	20,160	27,016	47,176	141,335	123,760	138,581	

Notes

- i For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 3.5 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.
- ii SAIF is a separate sub-fund within the PAC long-term business fund.
- iii Wholly-owned subsidiary of the PAC WPSF that writes annuity business.
- iv Excluding policyholder liabilities of the Hong Kong branch of PAC.
- v Other investments comprise:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
Derivative assets*	1,370	1,819	910
Partnerships in investment pools and other†	2,953	2,397	2,720
	4,323	4,216	3,630

*In the UK, Prudential uses derivatives to reduce equity and credit risk, interest rate and currency exposures, and to facilitate efficient portfolio management. After derivative liabilities of £868 million (30 June 2009: £583 million; 31 December 2009: £709 million), which are also included in the statement of financial position, the overall derivative position was a net asset of £502 million (30 June 2009: £1,236 million; 31 December 2009: £201 million).

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

vi Unallocated surplus of with-profits funds

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

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

P: Statement of financial position continued

ii US insurance operations

	30 Jun 2010 £m			30 Jun 2009 £m			31 Dec 2009 £m		
	Variable annuity separate account assets and liabilities note i	Fixed annuity, GIC and other business note i	Total	Variable annuity separate account assets and liabilities note i	Fixed annuity, GIC and other business note i	Total	Variable annuity separate account assets and liabilities note i	Fixed annuity, GIC and other business note i	Total
Assets									
Intangible assets attributable to shareholders:									
Deferred acquisition costs ^S	–	2,950	2,950	–	3,259	3,259	–	3,092	3,092
Total	–	2,950	2,950	–	3,259	3,259	–	3,092	3,092
Deferred tax assets	–	1,828	1,828	–	1,363	1,363	–	1,944	1,944
Other non-investment and non-cash assets	–	1,409	1,409	–	1,315	1,315	–	1,404	1,404
Investments of long-term business and other operations:									
Investment properties	–	27	27	–	12	12	–	33	33
Financial investments:									
Loans ^U	–	4,537	4,537	–	4,295	4,295	–	4,319	4,319
Equity securities and portfolio holdings in unit trusts	24,291	338	24,629	14,512	472	14,984	20,639	345	20,984
Debt securities ^{VW}	–	27,371	27,371	–	20,896	20,896	–	22,831	22,831
Other investments ^{note ii}	–	1,684	1,684	–	1,103	1,103	–	955	955
Deposits	–	359	359	–	577	577	–	454	454
Total investments	24,291	34,316	58,607	14,512	27,355	41,867	20,639	28,937	49,576
Properties held-for-sale	–	3	3	–	–	–	–	3	3
Cash and cash equivalents	–	153	153	–	343	343	–	340	340
Total assets	24,291	40,659	64,950	14,512	33,635	48,147	20,639	35,720	56,359
Equity and liabilities									
Equity									
Shareholders' equity	–	3,905	3,905	–	2,046	2,046	–	3,011	3,011
Non-controlling interests	–	–	–	–	–	–	–	–	–
Total equity	–	3,905	3,905	–	2,046	2,046	–	3,011	3,011
Liabilities									
Policyholder liabilities:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	24,291	30,962	55,253	14,512	26,980	41,492	20,639	27,672	48,311
Total	24,291	30,962	55,253	14,512	26,980	41,492	20,639	27,672	48,311
Core structural borrowings of shareholder-financed operations	–	166	166	–	152	152	–	154	154
Operational borrowings attributable to shareholder-financed operations	–	171	171	–	297	297	–	203	203
Deferred tax liabilities	–	2,254	2,254	–	1,075	1,075	–	1,858	1,858
Other non-insurance liabilities	–	3,201	3,201	–	3,085	3,085	–	2,822	2,822
Total liabilities	24,291	36,754	61,045	14,512	31,589	46,101	20,639	32,709	53,348
Total equity and liabilities	24,291	40,659	64,950	14,512	33,635	48,147	20,639	35,720	56,359

Notes

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

ii Other investments comprise:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
Derivative assets*	1,162	652	519
Partnerships in investment pools and other†	522	451	436
	1,684	1,103	955

*In the US, Prudential uses derivatives to reduce interest rate risk, to facilitate efficient portfolio management to match liabilities under annuity policies, and for certain equity-based product management activities. After taking account of the derivative liability of £618 million (30 June 2009: £561 million; 31 December 2009: £461 million), which is also included in the statement of financial position, the derivative position for US operations is a net asset of £544 million (30 June 2009: £91 million; 31 December 2009: £58 million).

†Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

iii Results and movements in shareholders' equity

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Operating profits based on longer-term investment returns ^C	450	217	459
Short-term fluctuations in investment returns ^F	(120)	165	27
Profit before shareholder tax	330	382	486
Tax ^L	(94)	(176)	102
Profit for the period	236	206	588
	2010 Half year £m	2009 Half year £m	2009 Full year £m
Profit for the period (as above)	236	206	588
Items recognised in other comprehensive income:			
Exchange movements	252	(278)	(231)
Unrealised valuation movements on securities classified as available-for sale:			
Unrealised holding gains arising during the year	1,123	662	2,249
Add back losses included in the income statement	21	146	420
Total unrealised valuation movements	1,144	808	2,669
Related change in amortisation of deferred income and acquisition costs ^S	(510)	(235)	(1,069)
Related tax	(215)	(150)	(557)
Total other comprehensive income	671	145	812
Total comprehensive income for the period	907	351	1,400
Dividends and interest payments to central companies	(13)	(3)	(87)
Net increase in equity	894	348	1,313
Shareholders' equity at beginning of period	3,011	1,698	1,698
Shareholders' equity at end of period	3,905	2,046	3,011

P: Statement of financial position continued

iii Asian insurance operations

	30 Jun 2010 £m				30 Jun 2009 £m				31 Dec 2009 £m			
	With-profits business note i	Unit-linked assets and liabilities	Other	Total	With-profits business note i	Unit-linked assets and liabilities	Other	Total	With-profits business note i	Unit-linked assets and liabilities	Other	Total
Assets												
Intangible assets attributable to shareholders:												
Goodwill	–	–	235	235	–	–	80	80	–	–	80	80
Deferred acquisition costs and other intangible assets ⁵	–	–	942	942	–	–	648	648	–	–	822	822
Total	–	–	1,177	1,177	–	–	728	728	–	–	902	902
Intangible assets attributable to with-profit funds:												
Deferred acquisition costs and other intangible assets	102	–	–	102	98	–	–	98	97	–	–	97
Deferred tax assets	–	–	96	96	8	–	93	101	–	–	132	132
Other non-investment and non-cash assets	373	180	439	992	320	102	1,044	1,466	234	83	563	880
Investments of long-term business and other operations:												
Investment properties	–	–	11	11	–	–	12	12	–	–	11	11
Investments accounted for using the equity method	–	–	5	5	–	–	–	–	–	–	2	2
Financial investments:												
Loans ^U	883	–	500	1,383	716	47	332	1,095	781	27	399	1,207
Equity securities and portfolio holdings in unit trusts	4,025	8,046	252	12,323	2,844	5,212	104	8,160	3,691	7,224	267	11,182
Debt securities ^V	5,990	2,697	3,738	12,425	4,326	1,982	1,986	8,294	4,988	2,462	2,534	9,984
Other investments	130	23	274	427	55	80	56	191	73	44	141	258
Deposits	27	284	641	952	34	233	272	539	14	196	536	746
Total investments	11,055	11,050	5,421	27,526	7,975	7,554	2,762	18,291	9,547	9,953	3,890	23,390
Cash and cash equivalents	350	232	428	1,010	396	298	448	1,142	225	235	377	837
Total assets	11,880	11,462	7,561	30,903	8,797	7,954	5,075	21,826	10,103	10,271	5,864	26,238

	30 Jun 2010 £m				30 Jun 2009 £m				31 Dec 2009 £m			
	With-profits business note i	Unit-linked assets and liabilities	Other	Total	With-profits business note i	Unit-linked assets and liabilities	Other	Total	With-profits business note i	Unit-linked assets and liabilities	Other	Total
Equity and liabilities												
Equity												
Shareholders' equity	–	–	1,992	1,992	–	–	1,576	1,576	–	–	1,462	1,462
Non-controlling interests	–	–	2	2	–	–	2	2	–	–	1	1
Total equity	–	–	1,994	1,994	–	–	1,578	1,578	–	–	1,463	1,463
Liabilities												
Policyholder liabilities and unallocated surplus of with-profits funds:												
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	10,110	10,855	4,515	25,480	7,988	7,509	2,689	18,186	8,808	9,717	3,333	21,858
Unallocated surplus of with-profits funds	52	–	–	52	46	–	–	46	53	–	–	53
Total	10,162	10,855	4,515	25,532	8,034	7,509	2,689	18,232	8,861	9,717	3,333	21,911
Operational borrowings attributable to shareholders-financed operations	–	–	195	195	–	–	133	133	–	–	210	210
Deferred tax liabilities	297	12	116	425	226	–	126	352	266	12	106	384
Other non-insurance liabilities	1,421	595	741	2,757	537	445	549	1,531	976	542	752	2,270
Total liabilities	11,880	11,462	5,567	28,909	8,797	7,954	3,497	20,248	10,103	10,271	4,401	24,775
Total equity and liabilities	11,880	11,462	7,561	30,903	8,797	7,954	5,075	21,826	10,103	10,271	5,864	26,238

Note

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

P: Statement of financial position continued

iv Asset management operations

	2010 £m				2009 £m	
	M&G	US	Asia	30 Jun Total	30 Jun Total	31 Dec Total
Assets						
Intangible assets:						
Goodwill	1,153	16	61	1,230	1,230	1,230
Deferred acquisition costs	8	–	–	8	6	8
Total	1,161	16	61	1,238	1,236	1,238
Other non-investment and non-cash assets	733	177	107	1,017	897	850
Financial investments:						
Loans ^U	1,453	–	–	1,453	1,534	1,413
Equity securities and portfolio holdings in unit trusts	146	–	9	155	72	137
Debt securities ^V	1,450	–	16	1,466	978	1,164
Other investments ^{note iii}	189	2	4	195	358	113
Deposits	37	3	14	54	22	63
Total financial investments	3,275	5	43	3,323	2,964	2,890
Cash and cash equivalents ^{note iii}	925	36	115	1,076	1,546	970
Total assets	6,094	234	326	6,654	6,643	5,948
Equity and liabilities						
Equity						
Shareholders' equity ^{note i}	1,343	127	241	1,711	1,637	1,659
Non-controlling interests	3	–	–	3	1	3
Total equity	1,346	127	241	1,714	1,638	1,662
Liabilities						
Intra-group debt represented by operational borrowings at Group level ^{note ii}	2,564	–	–	2,564	2,392	2,038
Net asset value attributable to external holders of consolidated funds ^{note iii}	398	–	–	398	524	410
Other non-insurance liabilities	1,786	107	85	1,978	2,089	1,838
Total liabilities	4,748	107	85	4,940	5,005	4,286
Total equity and liabilities	6,094	234	326	6,654	6,643	5,948

Notes

- i M&G shareholders' equity includes equity in respect of Prudential Capital.
- ii Intra Group debt represented by operational borrowings at Group level
Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise £2,312 million (30 June 2009: £2,385 million; 31 December 2009: £2,031 million) of commercial paper and £252 million (30 June 2009: £7 million; 31 December 2009: £7 million) of medium-term notes.
- iii Consolidated investment funds
The M&G statement of financial position shown above includes investment funds which are managed on behalf of third parties. In respect of these funds, the statement of financial position includes cash and cash equivalents of £247 million, £164 million of other investments, £(13) million of other net assets and liabilities and net asset value attributable to external unit holders of £398 million which are non-recourse to M&G and the Group.

Q: Acquisition of United Overseas Bank Life Assurance Limited

On 1 February 2010, the Group acquired from United Overseas Bank (UOB) its 100 per cent interest in UOB Life Assurance Limited in Singapore for total cash consideration, after post-completion adjustments currently estimated at SGD67 million (£32 million), of SGD495 million (£220 million). The acquisition offers new profitable growth opportunities in Asia. As part of the transaction the Group also entered into a long-term strategic partnership to develop a major regional bancassurance business with UOB.

In addition to the amounts above the Group incurred £2 million of acquisition-related costs (excluding integration costs). These have been excluded from the consideration transferred and have been recognised as an expense in the period, in the condensed consolidated income statement. This amount has been excluded from operating profit based on longer-term investment returns.

Goodwill arising on acquisition

	£m
Cash consideration	220
Less: fair value of identifiable net assets acquired	(75)
Goodwill arising on acquisition	145

Goodwill arose in the acquisition of UOB Life Assurance Limited in Singapore because the acquisition included revenue and cost synergies. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts and did not arise from contractual or other legal rights.

None of the goodwill arising on this transaction is expected to be deductible for tax purposes.

Assets acquired and liabilities assumed at the date of acquisition

	£m
Assets:	
Intangible assets attributable to shareholders: Present value of acquired in-force business	2
Other non-investment and non-cash assets	22
Investments of long-term business and other operations	1,004
Cash and cash equivalents	89
Total assets	1,117
Liabilities:	
Policyholder liabilities and unallocated surplus of with-profit funds: Contract liabilities	968
Other non-insurance liabilities	74
Total liabilities	1,042
Fair value of identifiable net assets acquired	75

Total assets include loans and receivables with a fair value of £15 million. This value represents the gross contractual amount and all amounts are expected to be collected.

Impact of acquisition on the results of the Group

Included in the Group's consolidated profit before tax for the period is £8 million attributable to UOB Life Assurance Limited in Singapore. Consolidated revenue, including investment returns, for the period includes £50 million in respect of UOB Life Assurance Limited in Singapore.

Had the acquisition been effected at 1 January 2010, the revenue and profit of the Group from continuing operations for the six months ended 30 June 2010 would not have been materially different.

R: Goodwill attributable to shareholders

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Cost			
At the beginning of the period	1,430	1,461	1,461
Disposal of Taiwan Agency business	–	(44)	(44)
Additional consideration paid on previously acquired businesses	–	13	13
Acquisition of UOB Life Assurance Limited in Singapore ^Q	145	–	–
Exchange differences	10	–	–
At the end of the period	1,585	1,430	1,430
Aggregate impairment	(120)	(120)	(120)
Net book amount at end of period	1,465	1,310	1,310

S: Deferred acquisition costs and other intangible assets attributable to shareholders

Significant costs are incurred in connection with acquiring new insurance business. Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under the FSA realistic regime, these costs, which vary with, and are primarily related to, the production of new business, are capitalised and amortised against margins in future revenues on the related insurance policies. The recoverability of the asset is measured and the asset is deemed impaired if the projected future margins are less than the carrying value of the asset. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value of the deferred acquisition cost asset will be necessary.

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

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

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Deferred acquisition costs relating to insurance and investment management contracts	3,847	3,923	3,930
Present value of acquired in-force business and distribution rights	181	122	119
	4,028	4,045	4,049
Arising in:			
UK insurance operations	128	132	127
US insurance operations	2,950	3,259	3,092
Asia insurance operations	942	648	822
Asset management operations	8	6	8
	4,028	4,045	4,049

The movement in the period for deferred acquisition costs and other intangible assets attributable to shareholders of the Group comprises:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Balance at the beginning of the period	4,049	5,349	5,349
Additions	605	468	1,071
Amortisation to income statement	(385)	(447)	(316)
Exchange differences	269	(654)	(550)
Change in shadow DAC	(510)	(235)	(1,069)
DAC movement on sale of Taiwan agency business	–	(436)	(436)
Balance at the end of the period	4,028	4,045	4,049

Of the above, the movement in the period in respect of Jackson and wholly relating to deferred acquisition costs comprises:

	2010 £m	2009 £m	
	Half year	Half year	Full year
Balance at the beginning of the period	3,092	3,962	3,962
Additions	408	294	690
Amortisation to income statement	(257)	(270)	(70)
Exchange differences	217	(492)	(421)
Change in shadow DAC	(510)	(235)	(1,069)
Balance at the end of the period	2,950	3,259	3,092

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

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. Under US GAAP, the grandfathered basis of accounting under IFRS 4, acquisition costs for Jackson's variable annuity products are amortised in line with the emergence of profits. The measurement of the amortisation in part reflects current period fees earned on assets covering liabilities to policyholders, and the expected level of future gross profits which depends on the assumed level of future fees.

Under US GAAP the projected gross profits reflect an assumed long-term level of equity return which, for Jackson, is 8.4 per cent. This is applied to the period end level of separate account equity assets after application of a mean reversion technique that broadly removes the effect of levels of short-term volatility in current market returns. Under the mean reversion technique applied by Jackson, subject to a capping feature, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding two years and the current year, the 8.4 per cent annual return is applied on average over the eight-year period. Projected returns after the next five years are also applied at the 8.4 per cent rate of return. The capping feature in the eight-year mean reversion period, which currently applies due to the very sharp market falls in 2008, is that the projected rates of return for the next five years can be no more than 15 per cent per annum. If Jackson had not applied the mean reversion methodology and had instead applied a constant 8.4 per cent annual return from today's asset values, the impact would be approximately £107 million.

The amortisation charge to the income statement is reflected in the operating profit before equity hedge results, the equity hedge results and short-term fluctuations in investment returns. The amortisation charge to the operating profit before equity hedge results in a reporting period will incorporate an element of acceleration or deceleration that reflects the variance between the actual level of return attained and the assumed level in the mean reversion calculation. In half year 2010 and half year 2009 the element of DAC amortisation charge included in operating profit includes £67 million and £12 million respectively of accelerated amortisation. These amounts reflect asset value shortfalls in the periods compared with the assumed level of 15 per cent for the year. For full year 2009, reflecting the excess of actual returns over the 15 per cent assumed level, the operating profit incorporates a credit for decelerated amortisation of £39 million.

For half year 2010 the separate account net equity return was approximately negative five per cent. The amortisation charge for full year 2010 is sensitive to changes in separate account returns in the second half of the year. For full year 2010, each one per cent divergence of the actual separate account net equity return from the assumed return, is estimated to give rise to a sensitivity for accelerated or decelerated amortisation of approximately £6 million.

In the absence of significant market declines between now and the end of 2011 Jackson would expect to see higher amortisation levels than normal. This would essentially represent a reversal of the mean reversion benefits to date, as highly negative returns from 2008 will no longer be included in the mean reverting returns.

T: Valuation bases for Group assets

The accounting carrying values of the Group's assets reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Group's application of IAS 39, 'Financial Instruments: Recognition and Measurement' as described further below. The basis applied for the assets section of the statement of financial position at 30 June 2010 is summarised below:

	30 Jun 2010 £m			30 Jun 2009 £m			31 Dec 2009 £m		
	At fair value	Cost/ Amortised cost note ii	Total	At fair value	Cost/ Amortised cost note ii	Total	At fair value	Cost/ Amortised cost note ii	Total
Intangible assets attributable to shareholders:									
Goodwill ^R	–	1,465	1,465	–	1,310	1,310	–	1,310	1,310
Deferred acquisition costs and other intangible assets ^S	–	4,028	4,028	–	4,045	4,045	–	4,049	4,049
Total	–	5,493	5,493	–	5,355	5,355	–	5,359	5,359
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	–	124	124	–	159	159	–	124	124
Deferred acquisition costs and other intangible assets	–	110	110	–	111	111	–	106	106
Total	–	234	234	–	270	270	–	230	230
Total	–	5,727	5,727	–	5,625	5,625	–	5,589	5,589
Other non-investment and non-cash assets:									
Property, plant and equipment	–	382	382	–	428	428	–	367	367
Reinsurers' share of insurance contract liabilities	–	1,369	1,369	–	1,114	1,114	–	1,187	1,187
Deferred tax assets ^L	–	2,691	2,691	–	2,149	2,149	–	2,708	2,708
Current tax recoverable	–	575	575	–	389	389	–	636	636
Accrued investment income	–	2,559	2,559	–	2,366	2,366	–	2,473	2,473
Other debtors	–	1,467	1,467	–	1,311	1,311	–	762	762
Total	–	9,043	9,043	–	7,757	7,757	–	8,133	8,133
Investments of long-term business and other operations:									
Investment properties	11,360	–	11,360	10,479	–	10,479	10,905	–	10,905
Investments accounted for using the equity method	–	9	9	–	6	6	–	6	6
Financial investments:									
Loans ^{notes iii, U}	251	9,336	9,587	–	8,613	8,613	–	8,754	8,754
Equity securities and portfolio holdings in unit trusts ^{note iii}	71,775	–	71,775	56,069	–	56,069	69,354	–	69,354
Debt securities ^{notes iii, V}	113,334	–	113,334	89,399	–	89,399	101,751	–	101,751
Other investments ^{note iii}	6,768	–	6,768	6,085	–	6,085	5,132	–	5,132
Deposits ^{note i}	–	9,766	9,766	–	8,806	8,806	–	12,820	12,820
Total	203,488	19,111	222,599	162,032	17,425	179,457	187,142	21,580	208,722
Properties held for sale	3	–	3	5	–	5	3	–	3
Cash and cash equivalents ^{note i}	–	6,040	6,040	–	6,542	6,542	–	5,307	5,307
Total assets	203,491	39,921	243,412	162,037	37,349	199,386	187,145	40,609	227,754
Percentage of Group total assets	84%	16%	100%	81%	19%	100%	82%	18%	100%

Notes

- i Under IAS 39, deposits and cash and cash equivalents are classified as loans and receivables and carried at amortised cost in the statement of financial position. There is no difference between their carrying values and fair values. Including these amounts as being at their fair values, the percentage of the Group's total assets held on the statement of financial position which were at fair value at 30 June 2010 was 90 per cent (30 June 2009: 89 per cent; 31 December 2009: 90 per cent).
- ii Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.
- iii These assets comprise financial instruments requiring fair value valuation under IAS 39 with a value of £192.1 billion (30 June 2009: £151.6 billion; 31 December 2009: £176.2 billion).

Determination of fair value

The fair values of the financial assets and liabilities as shown on the tables opposite have been determined on the following bases.

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

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

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

The fair value of borrowings attributable to with-profits funds is based on quoted market prices.

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

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

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

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

Level 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active. It also includes other financial instruments (including net assets attributable to unit holders of consolidated unit trusts and similar funds) where there is clear evidence that the year end valuation is based on a traded price in an active market.

T: Valuation bases for Group assets continued***Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)***

Level 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment funds valued with observable inputs. It also includes net assets attributable to unit-holders of consolidated unit trusts and similar funds and investment contract liabilities that are valued using observable inputs.

The nature of Prudential's operations in the US and the UK mean that a significant proportion of the assets backing non-linked shareholder-backed business are held in corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing providers in the US and third party broker quotes in the UK and Asia either directly or via third parties such as IDC or Bloomberg. Such assets have generally been classified as level 2 as the nature of broker quotations means that it does not strictly meet the definition of a level 1 asset. However these valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

In addition level 2 includes debt securities that are valued internally using standard market practices. Of the total level 2 debt securities of £87,440 million at 30 June 2010 (31 December 2009: £83,301 million), £6,862 million are valued internally (31 December 2009: £6,426 million). The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities on a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

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

Level 3 principally includes investments in private equity funds, investments in property funds which are exposed to bespoke properties or risks investments which are internally valued or subject to a significant number of unobservable assumptions and certain derivatives which are bespoke or long dated. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that these have been based on observable market data. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as level 3.

At 30 June 2010 the Group held £4,570 million (31 December 2009: £5,190 million), three per cent of the fair valued financial instruments (31 December 2009: three per cent), within level 3. Of these amounts £3,698 million (31 December 2009: £3,510 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments. Total level 3 assets represented 3.9 per cent of the total assets of the participating funds at 30 June 2010 (31 December 2009: 3.7 per cent). Total level 3 liabilities at 30 June 2010 were £394 million out of total participating fund liabilities of £106,007 million (31 December 2009: £348 million out of £104,817 million).

Of the £892 million level 3 fair valued financial investments at 30 June 2010 (31 December 2009: £1,684 million), net of derivative liabilities which support non-linked shareholder-backed business (1.4 per cent of the total financial investments net of derivative liabilities backing this business) (31 December 2009: 3.0 per cent), £817 million are externally valued and £75 million are internally valued (31 December 2009: £1,653 million and £31 million respectively). Internal valuations, which represent 0.12 per cent of the total financial investments net of derivative liabilities supporting non-linked shareholder-backed business at 30 June 2010 (31 December 2009: 0.06 per cent), are inherently more subjective than external valuations.

	30 Jun 2010 £m			
	Level 1	Level 2	Level 3	Total
With-profits				
Equity securities and portfolio holdings in unit trusts	25,655	988	476	27,119
Debt securities	10,975	39,707	1,206	51,888
Other investments (including derivative assets)	64	1,679	2,410	4,153
Derivative liabilities	(136)	(589)	(27)	(752)
Total financial investments, net of derivative liabilities	36,558	41,785	4,065	82,408
Borrowing attributable to the with-profits fund held at fair value	–	(88)	–	(88)
Investment contract liabilities without discretionary participation feature(s) held at fair value	–	–	–	–
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(384)	(273)	(367)	(1,024)
Total	36,174	41,424	3,698	81,296
Percentage of total	44%	51%	5%	100%
Unit-linked and variable annuity				
Equity securities and portfolio holdings in unit trusts	43,810	65	–	43,875
Debt securities	3,617	4,683	25	8,325
Other investments (including derivative assets)	21	69	–	90
Derivative liabilities	–	–	–	–
Total financial investments, net of derivative liabilities	47,448	4,817	25	52,290
Investment contract liabilities without discretionary participation features held at fair value	–	(12,547)	–	(12,547)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,159)	–	–	(1,159)
Total	46,289	(7,730)	25	38,584
Percentage of total	120%	(20)%	0%	100%
Non-linked shareholder-backed				
Loans	–	251	–	251
Equity securities and portfolio holdings in unit trusts	543	41	197	781
Debt securities	9,754	43,050	317	53,121
Other investments (including derivative assets)	203	1,747	575	2,525
Derivative liabilities	(6)	(1,078)	(197)	(1,281)
Total financial investments, net of derivative liabilities	10,494	44,011	892	55,397
Investment contract liabilities without discretionary participation features held at fair value	–	(1,316)	–	(1,316)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(122)	(317)	(45)	(484)
Other liabilities	–	(252)	–	(252)
Total	10,372	42,126	847	53,345
Percentage of total	19%	79%	2%	100%
Group total				
Loans	–	251	–	251
Equity securities and portfolio holdings in unit trusts	70,008	1,094	673	71,775
Debt securities	24,346	87,440	1,548	113,334
Other investments (including derivative assets)	288	3,495	2,985	6,768
Derivative liabilities	(142)	(1,667)	(224)	(2,033)
Total financial investments, net of derivative liabilities	94,500	90,613	4,982	190,095
Borrowing attributable to the with-profits fund held at fair value	–	(88)	–	(88)
Investment contract liabilities without discretionary participation features held at fair value	–	(13,863)	–	(13,863)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,665)	(590)	(412)	(2,667)
Other liabilities	–	(252)	–	(252)
Total	92,835	75,820	4,570	173,225
Percentage of total	53%	44%	3%	100%

T: Valuation bases for Group assets continued

	31 Dec 2009 £m			Total
	Level 1	Level 2	Level 3	
With-profits				
Equity securities and portfolio holdings in unit trusts	28,688	799	475	29,962
Debt securities	7,063	39,051	1,213	47,327
Other investments (including derivative assets)	79	1,199	2,170	3,448
Derivative liabilities	(54)	(504)	(25)	(583)
Total financial investments, net of derivative liabilities	35,776	40,545	3,833	80,154
Borrowing attributable to the with-profits fund held at fair value	–	(105)	–	(105)
Investment contract without discretionary participation features held at fair value	–	–	–	–
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,354)	(305)	(323)	(1,982)
Total	34,422	40,135	3,510	78,067
Percentage of total	44%	51%	5%	100%
Unit-linked and variable annuity				
Equity securities and portfolio holdings in unit trusts	38,616	4	–	38,620
Debt securities	3,283	5,525	40	8,848
Other investments (including derivative assets)	30	80	–	110
Derivative liabilities	–	–	–	–
Total financial investments, net of derivative liabilities	41,929	5,609	40	47,578
Investment contract without discretionary participation features held at fair value	–	(12,242)	–	(12,242)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,324)	(7)	(2)	(1,333)
Total	40,605	(6,640)	38	34,003
Percentage of total	119%	(19)%	0%	100%
Non-linked shareholder-backed				
Equity securities and portfolio holdings in unit trusts	557	36	179	772
Debt securities	5,783	38,725	1,068	45,576
Other investments (including derivative assets)	155	787	632	1,574
Derivative liabilities	(20)	(703)	(195)	(918)
Total financial investments, net of derivative liabilities	6,475	38,845	1,684	47,004
Investment contract without discretionary participation features held at fair value	–	(1,598)	–	(1,598)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(110)	(342)	(42)	(494)
Total	6,365	36,905	1,642	44,912
Percentage of total	14%	82%	4%	100%
Group total				
Equity securities and portfolio holdings in unit trusts	67,861	839	654	69,354
Debt securities	16,129	83,301	2,321	101,751
Other investments (including derivative assets)	264	2,066	2,802	5,132
Derivative liabilities	(74)	(1,207)	(220)	(1,501)
Total financial investments net of derivative liabilities	84,180	84,999	5,557	174,736
Borrowing attributable to the with-profits fund held at fair value	–	(105)	–	(105)
Investment contract without discretionary participation features held at fair value	–	(13,840)	–	(13,840)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(2,788)	(654)	(367)	(3,809)
Total	81,392	70,400	5,190	156,982
Percentage of total	52%	45%	3%	100%

U: Loans portfolio

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

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Insurance operations			
UK ^{note i}	2,214	1,689	1,815
US ^{note ii}	4,537	4,295	4,319
Asia ^{note iii}	1,383	1,095	1,207
Asset management operations			
M&G ^{note iv}	1,453	1,534	1,413
Total	9,587	8,613	8,754

Notes

i UK insurance operations

The loans of the Group's UK insurance operations of £2,214 million at 30 June 2010 (30 June 2009: £1,689 million; 31 December 2009: £1,815 million) comprise loans held by the PAC with-profits fund of £1,189 million (30 June 2009: £1,065 million; 31 December 2009: £1,106 million) and loans held by shareholder-backed business of £1,025 million (30 June 2009: £624 million; 31 December 2009: £709 million).

The loans held by the PAC with-profits fund comprise mortgage loans of £197 million, policy loans of £23 million and other loans of £969 million (30 June 2009: £147 million, £26 million and £892 million respectively; 31 December 2009: £145 million, £24 million and £937 million respectively). The mortgage loans are collateralised by properties. Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

The loans held by the UK shareholder-backed business comprise mortgage loans collateralised by properties of £1,019 million (30 June 2009: £619 million; 31 December 2009: £702 million) and other loans of £6 million (30 June 2009: £5 million; 31 December 2009: £7 million).

ii US insurance operations

The loans of the Group's US insurance operations of £4,537 million at 30 June 2010 (30 June 2009: £4,295 million; 31 December 2009: £4,319 million) comprise mortgage loans of £3,948 million, policy loans of £573 million and other loans of £16 million (30 June 2009: £3,780 million, £515 million and £nil, respectively; 31 December 2009: £3,774 million, £530 million and £15 million, respectively). All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, office, retail and hotel. The breakdown by property type is as follows:

	2010 30 Jun %	2009 30 Jun %	2009 31 Dec %
Industrial	30	33	32
Multi-Family	18	18	18
Office	21	21	20
Retail	20	17	19
Hotels	10	10	10
Other	1	1	1
	100	100	100

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

The policy loans are fully secured by individual life insurance policies or annuity policies.

iii Asian insurance operations

The loans of the Group's Asian insurance operations of £1,383 million at 30 June 2010 (30 June 2009: £1,095 million; 31 December 2009: £1,207 million) comprise mortgage loans of £18 million, policy loans of £497 million and other loans of £868 million (30 June 2009: £4 million, £402 million and £689 million respectively; 31 December 2009: £13 million, £437 million and £757 million respectively). The mortgage and policy loans are secured by properties and life insurance policies respectively.

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

iv M&G

The M&G loans of £1,453 million (30 June 2009: £1,534 million; 31 December 2009: £1,413 million) relate to loans and receivables managed by Prudential Capital. These assets generally have no external credit ratings available. The internal ratings prepared by the Group's asset management operations as part of the risk management process are £87 million A+ to A- (30 June 2009: £nil; 31 December 2009: £92 million) £907 million BBB+ to BBB- (30 June 2009: £1,013 million; 31 December 2009: £835 million), £315 million BB+ to BB- (30 June 2009: £521 million; 31 December 2009: £330 million), and £144 million B+ to B- (30 June 2009: £nil; 31 December 2009: £156 million).

V: Debt securities portfolio

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 30 June 2010 provided in the notes below.

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Insurance operations			
UK ^{note i}	72,072	59,231	67,772
US ^{note ii}	27,371	20,896	22,831
Asia ^{note iii}	12,425	8,294	9,984
Asset management operations ^{note iv}	1,466	978	1,164
Total	113,334	89,399	101,751

Notes

i UK insurance operations

	PAC with-profits sub-fund				Other funds and subsidiaries			UK insurance operations		
	Scottish Amicable Insurance Fund £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited £m	Total £m	Unit linked assets and liabilities £m	PRIL £m	Other annuity and long-term business £m	2010 30 Jun Total £m	2009 30 Jun Total £m	2009 31 Dec Total £m
S&P – AAA	1,322	5,633	3,189	8,822	2,618	5,305	870	18,937	16,571	16,091
S&P – AA+ to AA-	355	2,132	1,132	3,264	592	1,914	246	6,371	5,673	6,472
S&P – A+ to A-	1,149	7,282	3,914	11,196	1,553	6,055	742	20,695	16,359	19,693
S&P – BBB+ to BBB-	1,088	6,923	1,336	8,259	730	2,275	447	12,799	9,141	12,183
S&P – Other	340	2,020	171	2,191	37	137	19	2,724	2,039	2,667
	4,254	23,990	9,742	33,732	5,530	15,686	2,324	61,526	49,783	57,106
Moody's – Aaa	70	354	58	412	6	87	22	597	467	463
Moody's – Aa1 to Aa3	10	97	43	140	–	107	26	283	275	276
Moody's – A1 to A3	27	174	227	401	–	134	15	577	420	801
Moody's – Baa1 to Baa3	62	385	248	633	–	139	27	861	712	815
Moody's – Other	19	190	45	235	–	56	4	314	302	339
	188	1,200	621	1,821	6	523	94	2,632	2,176	2,694
Fitch	30	213	178	391	–	202	33	656	871	1,022
Other	458	2,658	2,366	5,024	92	1,587	97	7,258	6,401	6,950
Total debt securities	4,930	28,061	12,907	40,968	5,628	17,998	2,548	72,072	59,231	67,772

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the £7,258 million total debt securities held at 30 June 2010 (30 June 2009: £6,401 million; 31 December 2009: £6,950 million) which are not externally rated, £2,289 million were internally rated AAA to A-, £3,529 million were internally rated BBB to B- and £1,440 million were unrated (30 June 2009: £2,190 million, £3,168 million and £1,043 million respectively; 31 December 2009: £2,190 million, £3,445 million and £1,315 million respectively). The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £1,684 million (30 June 2009: £1,366 million; 31 December 2009: £1,503 million) PRIL and other annuity and long-term business investments which are not externally rated, £8 million (30 June 2009: £25 million; 31 December 2009: £15 million) were internally rated AAA, £90 million (30 June 2009: £84 million; 31 December 2009: £88 million) AA, £530 million (30 June 2009: £472 million; 31 December 2009: £495 million) A, £699 million (30 June 2009: £582 million; 31 December 2009: £647 million) BBB, £104 million (30 June 2009: £162 million; 31 December 2009: £123 million) BB and £253 million (30 June 2009: £41 million; 31 December 2009: £135 million) were internally rated B+ and below.

ii US insurance operations

US insurance operations held total debt securities with a carrying value of £27,371 million at 30 June 2010 (30 June 2009: £20,896 million; 31 December 2009: £22,831 million). The table below provides information relating to the credit risk of the aforementioned debt securities.

	2010 30 Jun Carrying value £m	2009 30 Jun Carrying value £m	2009 31 Dec Carrying value £m
Summary			
Corporate and government securities	20,451	14,881	16,455
Residential mortgage-backed securities	3,343	3,414	3,316
Commercial mortgage-backed securities	2,494	1,725	2,104
Other debt securities	1,083	876	956
Total debt securities	27,371	20,896	22,831

The following table summarises the securities detailed above by rating as at 30 June 2010 using Standard and Poor's (S&P), Moody's, Fitch and implicit ratings of RMBS based on NAIC valuations:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
S&P – AAA	5,600	4,260	3,287
S&P – AA+ to AA-	1,164	624	846
S&P – A+ to A-	6,118	4,108	5,192
S&P – BBB+ to BBB-	8,469	6,781	7,659
S&P – Other	833	1,480	895
	22,184	17,253	17,879
Moody's – Aaa	8	301	273
Moody's – Aa1 to Aa3	34	54	43
Moody's – A1 to A3	247	69	32
Moody's – Baa1 to Baa3	89	79	64
Moody's – Other	66	146	57
	444	649	469
Implicit ratings of RMBS based on NAIC valuations (see below)			
NAIC 1	810	–	747
NAIC 2	161	–	105
NAIC 3-6	319	–	473
Total	1,290	–	1,325
Fitch	262	239	281
Other*	3,191	2,755	2,877
Total debt securities	27,371	20,896	22,831

In the table above, with the exception of residential mortgage-backed securities for half year 2010 and full year 2009, S&P ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

During the second half of 2009 the National Association of Insurance Commissioners (NAIC) in the US revised the regulatory rating process for more than 20,000 residential mortgage-backed securities. The table above includes these securities, where held by Jackson, using the regulatory rating levels established by an external third party (PIMCO) for half year 2010 and full year 2009.

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

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
NAIC 1	1,240	1,085	1,102
NAIC 2	1,787	1,583	1,623
NAIC 3-6	164	87	152
	3,191	2,755	2,877

iii Asia insurance operations

	With-profits business £m	Unit-linked business £m	Other business £m	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
S&P – AAA	1,940	306	271	2,517	1,723	2,259
S&P – AA+ to AA-	881	563	1,235	2,679	1,414	1,594
S&P – A+ to A-	1,189	91	527	1,807	1,370	1,496
S&P – BBB+ to BBB-	647	114	191	952	615	682
S&P – Other	455	328	577	1,360	590	917
	5,112	1,402	2,801	9,315	5,712	6,948
Moody's – Aaa	117	69	30	216	329	134
Moody's – Aa1 to Aa3	40	53	22	115	156	349
Moody's – A1 to A3	117	20	106	243	65	309
Moody's – Baa1 to Baa3	55	13	35	103	61	40
Moody's – Other	21	–	12	33	438	15
	350	155	205	710	1,049	847
Fitch	33	190	14	237	33	39
Other	495	949	719	2,163	1,500	2,150
Total debt securities	5,990	2,696	3,739	12,425	8,294	9,984

Of the £719 million (30 June 2009: £429 million; 31 December 2009: £517 million) of debt securities for other business which are not rated in the table above, £183 million (30 June 2009: £191 million; 31 December 2009: £225 million) are in respect of government bonds, £334 million (30 June 2009: £139 million; 31 December 2009: £265 million) are in respect of corporate bonds rated as investment grade by local external ratings agencies and £4 million (30 June 2009: £nil; 31 December 2009: £22 million) are structured deposits which are themselves rated but where the specific deposits have not been.

iv Asset Management Operations

Total debt securities for asset management operations of £1,466 million (30 June 2009: £978 million; 31 December 2009: £1,164 million), include £1,450 million (30 June 2009: £966 million; 31 December 2009: £1,149 million) relating to M&G of which £1,353 million (30 June 2009: £923 million; 31 December 2009: £1,072 million) were rated AAA to A- by S&P or Aaa by Moody's.

V: Debt securities portfolio continued

v Group exposure to holdings in asset-backed securities

The Group's exposure to holdings in asset-backed securities, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), CDO funds and other asset-backed securities (ABS), at 30 June 2010 is as follows:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
Shareholder-backed operations (excluding assets held in unit-linked funds):			
UK insurance operations ^{note i}	1,102	911	2,044
US insurance operations ^{note ii}	6,921	5,867	6,376
Asian insurance operations ^{note iii}	76	14	59
Other operations ^{note iv}	360	325	326
	8,459	7,117	8,805
With-profits operations:			
UK insurance operations ^{note i}	4,682	4,089	6,451
Asian insurance operations ^{note iii}	429	261	378
	5,111	4,350	6,829
Total	13,570	11,467	15,634

Notes

i UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 30 June 2010 comprises:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
Shareholder-backed business (30 Jun 2010: 53% AAA, 19% AA)	1,102	911	2,044
With-profits operations (30 Jun 2010: 48% AAA, 12% AA)	4,682	4,089	6,451
Total	5,784	5,000	8,495

All of the £1,102 million (30 June 2009: £911 million; 31 December 2009: £2,044 million) exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. £3,046 million of the £4,682 million (30 June 2009: £2,400 million of the £4,089 million; 31 December 2009: £4,695 million of the £6,451 million) exposure of the with-profits operations relates to exposure to the UK market while the remaining £1,636 million (30 June 2009: £1,689 million; 31 December 2009: £1,756 million) relates to exposure to the US market.

ii US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2010 comprises:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
RMBS Sub-prime (30 June 2010: 46% AAA, 6% AA) [†]	226	155	194
Alt-A (30 June 2010: 17% AAA, 6% AA)	425	415	443
Prime (30 June 2010: 83% AAA, 2% AA)	2,692	2,844	2,679
CMBS (30 June 2010: 33% AAA, 14% AA)	2,494	1,725	2,104
CDO funds (30 June 2010: 7% AAA, 8% AA)*, including £3m exposure to sub-prime	160	207	79
ABS (30 June 2010: 30% AAA, 17% AA), including £nil exposure to sub-prime	924	521	877
Total	6,921	5,867	6,376

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

[†] RMBS ratings refer to the ratings implicit within NAIC risk-based capital valuation as described in note F (iii)(b).

iii Asian insurance operations

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

The £429 million (30 June 2009: £261 million; 31 December 2009: £378 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
RMBS – all without sub-prime exposure	–	31	–
CMBS	113	64	91
CDO funds and ABS	316	166	287
Total	429	261	378

The £429 million (30 June 2009: £261 million; 31 December 2009: £378 million) includes £310 million (30 June 2009: £174 million; 31 December 2009: £228 million) held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and include an amount not owned by the Group with a corresponding liability of £16 million (30 June 2009: £37 million; 31 December 2009: £61 million) on the statement of financial position for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £429 million, 49 per cent (30 June 2009: £261 million, 67 per cent; 31 December 2009: £378 million, 72 per cent) are investment graded by Standard & Poor's.

iv Other operations

Other operations' exposure to asset-backed securities at 30 June 2010 is held by Prudential Capital and comprises:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
RMBS Prime (30 June 2010: 94% AAA, 6% AA)	143	78	91
CMBS (30 June 2010: 32% AAA, 23% AA)	184	187	193
CDO funds and ABS	33	60	42
Total	360	325	326

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

i Valuation basis

Under IAS 39, unless categorised as 'held to maturity' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities do not have an externally quoted price based on regular trades or are quoted in markets that are no longer active as a result of market conditions, IAS 39 requires that valuation techniques be applied.

ii Accounting presentation of gains and losses

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

However, for debt securities classified as 'available-for-sale', unless impaired, fair value movements are recorded as part of other comprehensive income. Impairments are recorded in the income statement as shown in note F of this announcement. This classification is applied for most of the debt securities of the Group's US insurance operations.

iii Half year 2010 movements in unrealised gains and losses

In half year 2010 there was a movement in the statement of financial position value for these debt securities classified as available-for-sale from a net unrealised gain of £4 million at 31 December 2009 to a net unrealised gain of £1,171 million at 30 June 2010. The gross unrealised gain in the statement of financial position increased from £970 million at 31 December 2009 to £1,692 million at 30 June 2010, while the gross unrealised loss decreased from £966 million at 31 December 2009 to £521 million at 30 June 2010.

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

	2010 30 Jun £m	Changes in unrealised appreciation [†] £m	Foreign exchange translation £m	2009 31 Dec £m
Assets fair valued at below book value				
Book value*	3,796			8,220
Unrealised loss	(521)	512	(67)	(966)
Fair value (as included in statement of financial position)	3,275			7,254
Assets fair valued at or above book value				
Book value*	22,276			14,444
Unrealised gain	1,692	632	90	970
Fair value (as included in statement of financial position)	23,968			15,414
Total				
Book value*	26,072			22,664
Net unrealised gain	1,171	1,144	23	4
Fair value (as included in statement of financial position) [‡]	27,243			22,668
Reflected as part of movement in other comprehensive income				
Movement in unrealised appreciation	1,144			2,669
Exchange movements	23			232
	1,167			2,901

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

[†]Translated at the average rate of \$1.5253: £1.

[‡]Debt securities for US operations included in the statement of financial position at 30 June 2010 of £27,371 million, and as referred to above comprise £27,243 million for securities classified as available-for-sale, as shown above, and £128 million for securities of consolidated investment funds classified as fair value through profit and loss.

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

Included within the movement in unrealised valuation losses for the debt securities of Jackson of £512 million was an amount of £59 million relating to the sub-prime and Alt-A securities for which the carrying values at 30 June 2010 are shown in the note below.

iv Securities in unrealised loss position

The following tables show some key attributes of those securities that are in an unrealised loss position at 30 June 2010.

a Fair value of securities as a percentage of book value

The unrealised losses on unimpaired securities in Jackson's statement of financial position are £521 million (31 December 2009: £966 million) relating to assets with fair market value and book value of £3,275 million (31 December 2009: £7,254 million) and £3,796 million (31 December 2009: £8,220 million) respectively. The following table shows the fair value of the securities in a gross unrealised loss position for various percentages of book value:

	30 Jun 2010 £m		31 Dec 2009 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	2,133	(70)	5,127	(169)
Between 80% and 90%	661	(111)	1,201	(203)
Below 80%	481	(340)	926	(594)
	3,275	(521)	7,254	(966)

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

	30 Jun 2010 £m		31 Dec 2009 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	118	(6)	102	(3)
Between 80% and 90%	95	(16)	160	(28)
Below 80%	103	(48)	159	(88)
Total	316	(70)	421	(119)

b Unrealised losses by maturity of security

	2010 £m		2009 £m	
	30 Jun		31 Dec	
Less than 1 year	–		–	
1 year to 5 years	(13)		(29)	
5 years to 10 years	(31)		(127)	
More than 10 years	(43)		(92)	
Mortgage-backed and other debt securities	(434)		(718)	
Total	(521)		(966)	

c Age analysis of unrealised losses for the periods indicated

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

	30 Jun 2010 £m			31 Dec 2009 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(15)	(6)	(21)	(7)	(51)	(58)
6 months to 1 year	(3)	(4)	(7)	(25)	(59)	(84)
1 year to 2 years	(78)	(24)	(102)	(59)	(234)	(293)
2 years to 3 years	(121)	(68)	(189)	(125)	(199)	(324)
More than 3 years	(105)	(97)	(202)	(35)	(172)	(207)
	(322)	(199)	(521)	(251)	(715)	(966)

At 30 June 2010, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £70 million (31 December 2009: £119 million), as shown above in note (a). Of these losses £5 million (31 December 2009: £21 million) relate to securities that have been in an unrealised loss position for less than one year and £65 million (31 December 2009: £98 million) to securities that have been in an unrealised loss position for more than one year.

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

As shown in the note (a) above, £340 million of the £521 million of gross unrealised losses at 30 June 2010 (31 December 2009: £594 million of the £966 million of gross unrealised losses) related to securities whose fair value were below 80 per cent of the book value. The analysis of the £340 million (31 December 2009: £594 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	30 Jun 2010 £m		31 Dec 2009 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Residential mortgage-backed securities				
Prime	144	(66)	322	(153)
Alt-A	39	(15)	77	(33)
Sub-prime	64	(33)	82	(55)
	247	(114)	481	(241)
Commercial mortgage-backed securities	26	(57)	87	(86)
Other asset-backed securities	135	(142)	183	(188)
Total structured securities	408	(313)	751	(515)
Corporates	73	(27)	175	(79)
Total	481	(340)	926	(594)

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

	30 Jun 2010 £m		31 Dec 2009 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	36	(11)	153	(45)
3 months to 6 months	6	(3)	5	(3)
More than 6 months	439	(326)	768	(546)
Total	481	(340)	926	(594)

X: Net core structural borrowings of shareholder-financed operations

	2010 £m		2009 £m	
	30 Jun	31 Dec	30 Jun	31 Dec
Core structural borrowings of shareholder-financed operations:				
Perpetual subordinated capital securities (Innovative Tier 1) ^{note i}	1,533	1,422	950	1,422
Subordinated notes (Lower Tier 2) ^{note i}	1,234	1,269	1,248	1,269
Subordinated debt total	2,767	2,691	2,198	2,691
Senior debt: ^{note iii}				
2023	300	300	300	300
2029	249	249	249	249
Holding company total	3,316	3,240	2,747	3,240
Jackson surplus notes (Lower Tier 2) ^{note i}	166	154	152	154
Total (per condensed consolidated statement of financial position) ^{note iv}	3,482	3,394	2,899	3,394
Less: Holding company cash and short-term investments (recorded within the condensed consolidated statement of financial position) ^{note ii}	(1,023)	(1,486)	(1,252)	(1,486)
Net core structural borrowings of shareholder-financed operations	2,459	1,908	1,647	1,908

Notes

- i These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook.
- ii Including central finance subsidiaries.
- iii The senior debt ranks above subordinated debt in the event of liquidation.
- iv In addition to the listed debt above, £200 million Floating Rate Notes were issued by Prudential plc in April 2010 which mature in October 2010. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These notes were originally issued in October 2008 and have been reissued upon their maturity. (The notes in place at 30 June 2010 were issued in April 2010 and mature in October 2010.)

Y: Other borrowings

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Operational borrowings attributable to shareholder-financed operations			
Borrowings in respect of short-term fixed income securities programmes	2,564	2,392	2,038
Non-recourse borrowings of US operations	171	297	203
Other borrowings ^{note i}	499	166	510
Total	3,234	2,855	2,751
Borrowings attributable to with-profits operations			
Non-recourse borrowings of consolidated investment funds	1,047	1,104	1,016
£100m 8.5% undated subordinated guaranteed bonds of the Scottish Amicable Insurance Fund	100	100	100
Other borrowings (predominantly obligations under finance leases)	166	145	168
Total	1,313	1,349	1,284

Notes

- i Other borrowings include amounts where repayment to the lender is contingent on future surpluses emerging from certain contracts specified under the arrangement. If sufficient surplus emerges on the contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

Z: Defined benefit pension schemes

The Group liability in respect of defined benefit pension schemes is as follows:

	2010 £m	2009 £m	
	30 Jun	30 Jun	31 Dec
Economic position:			
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:			
Attributable to the PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	(120)	(123)	(122)
Attributable to shareholder-backed operations (i.e. shareholders' equity)	(140)	(120)	(128)
Economic deficit	(260)	(243)	(250)
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	(198)	(161)	(187)
Deficit under IAS 19 included in Provisions in the condensed statement of financial position	(458)	(404)	(437)

The Group business operations operate a number of pension schemes. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). In the UK, the Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G. For all three schemes the projected unit method was used for the most recent full actuarial valuations.

The underlying position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. At 30 June 2010, the investments in Prudential policies comprise £94 million (30 June 2009: £110 million; 31 December 2009: £101 million) for PSPS and £198 million (30 June 2009: £161 million; 31 December 2009: £187 million) for the M&G scheme.

Separately, the economic financial position also includes the effect of the application of IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. For PSPS, where there are constraints in the trust deed to prevent the company access, the surplus is not recognised and a liability to additional funding is established.

At 30 June 2010, the Group has not recognised the underlying PSPS surplus of £309 million gross of deferred tax (30 June 2009: £492 million; 31 December 2009: £513 million) and has recognised a liability for deficit funding to 30 June 2012 for PSPS of £62 million gross of deferred tax (30 June 2009: £68 million; 31 December 2009: £75 million).

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. PSPS was last actuarially valued as at 5 April 2008. This valuation demonstrated the scheme to be 106 per cent funded. Although no formal deficit plan was required, an additional funding akin to deficit funding of £25 million per annum was agreed by the Trustees subject to a reassessment when the next valuation is completed. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC life fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions.

The valuation of the Scottish Amicable Pension Scheme as at 31 March 2008 demonstrated the scheme to be 91 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a seven year period were made from July 2009 of £7.3 million per annum. The IAS 19 deficit of the Scottish Amicable Pension Scheme at 30 June 2010 of £154 million (30 June 2009: £150 million; 31 December 2009: £139 million) has been allocated 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The valuation of the M&G pension scheme as at 31 December 2008 was finalised in January 2010 and demonstrated the scheme to be 76 per cent funded. 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 IAS 19 deficit of the M&G pension scheme on an economic basis at 30 June 2010 was £44 million (30 June 2009: £24 million; 31 December 2009: £36 million) and is wholly attributable to shareholders.

i Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the period ended 30 June 2010 were as follows:

	2010 %	2009 %	
	30 Jun	30 Jun	31 Dec
Discount rate*	5.4	6.4	5.8
Rate of increase in salaries	5.4	5.6	5.7
Rate of inflation†	3.4	3.6	3.7
Rate of increase of pensions in payment for inflation:			
Guaranteed (maximum 5%)	3.4	3.6	3.7
Guaranteed (maximum 2.5%)	2.5	2.5	2.5
Discretionary	2.5	2.5	2.5
Expected return on plan assets	5.9	4.5	4.5

*The discount rate has been determined by reference to an AA corporate bond index adjusted to allow for the difference in duration between the index and the pension liabilities.

†The inflation assumption reflects the long-term assumption for the UK Retail Price Index (RPI).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality, which is broadly based on adjusted versions of the medium cohort projections prepared by the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries.

The tables used for PSPS immediate annuities in payment at 30 June 2010 were:

Male: 108.6 per cent PNMA 00 with medium cohort improvements subject to a floor of 1.75 per cent up to the age of 90, decreasing linearly to zero by age of 120; and

Female: 103.4 per cent PNFA 00 with 75 per cent medium cohort improvements subject to a floor of one per cent up to the age of 90 and decreasing linearly to zero by age of 120.

Z: Defined benefit pension schemes continued**ii Estimated pension scheme deficit - economic basis**

Movements on the pension scheme deficit (determined on the 'economic basis') are as follows, with the effect of the application of IFRIC 14 being shown separately:

	30 Jun 2010 £m				Surplus (deficit) in scheme at 30 June 2010 note c
	Surplus (deficit) in scheme at 1 January 2010	Operating results (based on longer-term investment returns) note a	Actuarial and other gains and losses note b	Contributions paid	
All schemes underlying position (without the effect of IFRIC 14)					
Surplus (deficit)	338	(3)	(265)	44	114
Less: amount attributable to PAC with-profits fund	(285)	(6)	174	(18)	(135)
Shareholders' share:					
Gross of tax surplus (deficit)	53	(9)	(91)	26	(21)
Related tax	(15)	2	26	(7)	6
Net of shareholders' tax	38	(7)	(65)	19	(15)
Effect of IFRIC 14					
Surplus (deficit)	(588)	(20)	234	–	(374)
Less: amount attributable to PAC with-profits fund	407	15	(167)	–	255
Shareholders' share:					
Gross of tax surplus (deficit)	(181)	(5)	67	–	(119)
Related tax	51	2	(20)	–	33
Net of shareholders' tax	(130)	(3)	47	–	(86)
With the effect of IFRIC 14					
Surplus (deficit)	(250)	(23)	(31)	44	(260)
Less: amount attributable to PAC with-profits fund	122	9	7	(18)	120
Shareholders' share:					
Gross of tax surplus (deficit)	(128)	(14)	(24)	26	(140)
Related tax	36	4	6	(7)	39
Net of shareholders' tax	(92)	(10)	(18)	19	(101)

Notes

a The components of the charge to operating results (gross of allocation of the share attributable to the PAC with-profits fund) are as follows:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Service cost	(18)	(16)	(34)
Finance (expense) income:			
Interest on pension scheme liabilities	(147)	(140)	(277)
Expected return on assets	162	119	240
Total charge without the effect of IFRIC 14	(3)	(37)	(71)
Effect of IFRIC 14 for pension schemes	(20)	14	23
Total charge after the effect of IFRIC 14	(23)	(23)	(48)

The net charge to operating profit (gross of the share attributable to the PAC with-profits fund) of £23 million (half year 2009: £23 million; full year 2009: £48 million) is made up of a charge of £14 million (half year 2009: £13 million; full year 2009: £29 million) relating to PSPS and a charge of £9 million (half year 2009: £10 million; full year 2009: £19 million) for other schemes. This net charge represents:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Underlying IAS 19 charge for other pension schemes	(9)	(10)	(19)
Cash costs for PSPS	(12)	(11)	(25)
Unwind of discount on opening provision for deficit funding for PSPS	(2)	(2)	(4)
	(23)	(23)	(48)

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members. In addition, the charge to the operating results also includes a charge for the unwind of discount on the opening provision for deficit funding for PSPS.

- b The components of the credit (charge) for actuarial and other gains and losses (gross of allocation of the share attributable to the PAC with-profits fund but excluding the charge relating to the sold Taiwan agency business) are as follows:

	2010 Half year £m	2009 Half year £m	2009 Full year £m
Actual less expected return on assets	39	(405)	108
(Losses) gains on changes of assumptions for plan liabilities	(302)	50	(521)
Experience (losses) gains on liabilities	(2)	2	76
Total charge without the effect of IFRIC 14	(265)	(353)	(337)
Effect of IFRIC 14 for pension schemes	234	219	182
Actuarial and other gains and losses after the effect of IFRIC 14	(31)	(134)	(155)

The net charge for actuarial and other gains and losses is recorded within the income statement but, within the segmental analysis of profit, the shareholders' share of actuarial and other gains and losses (i.e. net of allocation of the share to the PAC with-profits funds) is excluded from operating profit based on longer-term investment returns.

The half year 2010 actuarial losses of £265 million primarily reflects the effect of decreases in risk discount rates partially offset by the effect of decrease in inflation rate and the excess of market returns over long-term assumptions and experience gains on liabilities.

Consistent with the derecognition of the Company's interest in the underlying IAS 19 surplus of PSPS, the actuarial gains and losses do not include those of PSPS. In addition, as a result of applying IFRIC 14, the Group has recognised a provision for deficit funding in respect of PSPS. The change in half year in 2010 in relation to this provision recognised above as other gains and losses on defined benefit pension schemes was £nil (half year 2009: £29 million; full year 2009: £48 million).

- c On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the underlying statements of financial position of the schemes were:

	2010 30 Jun £m	2009 30 Jun £m	2009 31 Dec £m
Equities	839	1,028	1,096
Bonds	3,935	3,024	3,686
Properties	279	267	287
Cash-like investments	587	678	443
Total value of assets	5,640	4,997	5,512
Present value of benefit obligations	(5,526)	(4,680)	(5,174)
	114	317	338
Effect of the application of IFRIC 14 for pension schemes:			
Derecognition of PSPS surplus	(309)	(492)	(513)
Adjust for obligation for deficit funding*	(65)	(68)	(75)
Pre-tax deficit	(260)	(243)	(250)

*The £65 million adjustment at 30 June 2010 comprises £62 million for PSPS and £3 million for M&G pension scheme (30 June 2009 and 31 December 2009: all relating to PSPS).

Z: Defined benefit pension schemes continued**iii Sensitivity of the pension scheme liabilities of the PSPS, Scottish Amicable and M&G pension schemes to key variables**

The table below shows the sensitivity of the underlying PSPS, Scottish Amicable and M&G pension scheme liabilities at 30 June 2010 of £4,745 million, £542 million and £239 million, respectively (30 June 2009: £4,016 million, £479 million, £185 million, respectively; 31 December 2009: £4,436 million, £515 million and £223 million, respectively) to changes in discount rates and inflation rates. In addition, the table below shows the sensitivity of the underlying PSPS, Scottish Amicable and M&G pension scheme liabilities at 30 June 2010 to changes to mortality rate assumptions.

30 Jun 2010		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.4% to 5.2%	Increase in scheme liabilities by: PSPS 3.5% Scottish Amicable 5.1% M&G 5.2%
Discount rate	Increase by 0.2% from 5.4% to 5.6%	Decrease in scheme liabilities by: PSPS 3.4% Scottish Amicable 4.8% M&G 4.9%
Rate of inflation	Decrease by 0.2% from 3.4% to 3.2% with consequent reduction in salary increases	Decrease in scheme liabilities by: PSPS 1.0% Scottish Amicable 5.0% M&G 4.7%
Mortality rate	Increase life expectancy by 1 year	Increase in scheme liabilities by: PSPS 2.2% Scottish Amicable 2.2% M&G 2.5%

30 Jun 2009		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 6.4% to 6.2%	Increase in scheme liabilities by: PSPS 3.3% Scottish Amicable 5.0% M&G 5.4%
Discount rate	Increase by 0.2% from 6.4% to 6.6%	Decrease in scheme liabilities by: PSPS 3.1% Scottish Amicable 4.6% M&G 4.9%
Rate of inflation	Decrease by 0.2% from 3.6% to 3.4% with consequent reduction in salary increases	Decrease in scheme liabilities by: PSPS 0.9% Scottish Amicable 4.6% M&G 4.9%

31 Dec 2009		
Assumption	Change in assumption	Impact on scheme liabilities on IAS 19 basis
Discount rate	Decrease by 0.2% from 5.8% to 5.6%	Increase in scheme liabilities by: PSPS 3.5% Scottish Amicable 5.2% M&G 4.9%
Discount rate	Increase by 0.2% from 5.8% to 6.0%	Decrease in scheme liabilities by: PSPS 3.2% Scottish Amicable 4.8% M&G 4.9%
Rate of inflation	Decrease by 0.2% from 3.7% to 3.5% with consequent reduction in salary increases	Decrease in scheme liabilities by: PSPS 0.9% Scottish Amicable 4.9% M&G 4.5%

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to an impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes within the supplementary analysis of profits. The relevance of this to each of the three UK schemes is described further below.

For PSPS, the underlying surplus of the scheme of £309 million (30 June 2009: £492 million; 31 December 2009: £513 million) has not been recognised under IFRIC 14. Any change in the underlying scheme liabilities to the extent that it is not sufficient to alter PSPS into a liability in excess of the deficit funding provision will not have an impact on the Group's results and financial position. Based on the underlying financial position of PSPS as at 30 June 2010, none of the changes to the underlying scheme liabilities for the changes in the variables shown in the table above have had an impact on the Group's half year 2010 results and financial position.

In the event that a change in the PSPS scheme liabilities results in a deficit position for the scheme which is recognisable, the deficit recognised affects the Group's results and financial position only to the extent of the amounts attributable to shareholder operations. The amounts attributable to the PAC with-profits fund are absorbed by the liability for unallocated surplus and have no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

The deficit of the Scottish Amicable pension scheme has been allocated 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders. Accordingly, half of the changes to the scheme liabilities for the changes in the variables shown in the table above would have had an impact on the Group's results and financial position. The M&G pension scheme is wholly attributable to shareholders.

AA: Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds

Group insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of the Group is as follows:

	Insurance operations			
	UK £m	US £m	Asia £m	Total £m
At 1 January 2010	126,195	48,311	21,911	196,417
Premiums	3,359	5,656	2,068	11,083
Surrenders	(2,060)	(1,767)	(858)	(4,685)
Maturities/Deaths	(3,546)	(418)	(206)	(4,170)
Net cash flows	(2,247)	3,471	1,004	2,228
Shareholders transfers post tax	(111)	–	(12)	(123)
Investment-related items and other movements	4,870	(424)	(250)	4,196
Foreign exchange translation differences	(513)	3,895	1,911	5,293
Acquisition of UOB Life Assurance Limited	–	–	968	968
At 30 June 2010	128,194	55,253	25,532	208,979
	Insurance operations			
	UK £m	US £m	Asia £m	Total £m
At 1 January 2009	115,961	45,361	21,069	182,391
Premiums	3,511	3,850	1,712	9,073
Surrenders	(2,008)	(2,244)	(498)	(4,750)
Maturities/Deaths	(3,636)	(404)	(166)	(4,206)
Net cash flows	(2,133)	1,202	1,048	117
Shareholders transfers post tax	(105)	–	(9)	(114)
Change in reserving basis in Malaysia	–	–	(63)	(63)
Investment-related items and other movements	(1,316)	884	2,377	1,945
Foreign exchange translation differences	(23)	(5,955)	(2,682)	(8,660)
Disposal of Taiwan agency business	–	–	(3,508)	(3,508)
At 30 June 2009	112,384	41,492	18,232	172,108

The items in the tables above represent the amount attributable to changes in policyholders' liabilities and unallocated surplus of with-profits funds as a result of each of the components listed.

Premiums, surrenders and maturities/deaths represent the amounts impacting policyholder liabilities and may not represent the total cash paid/received (for example premiums are net of any deductions to cover acquisition costs and claims represents the policyholder liabilities released).

AA: Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds continued

i UK insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations is as follows:

	SAIF and PAC with-profits sub-fund £m	Other funds and subsidiaries		Total £m
		Unit-linked liabilities £m	Annuity and other long-term business £m	
At 1 January 2010	87,495	19,035	19,665	126,195
Premiums	1,624	933	802	3,359
Surrenders	(1,428)	(619)	(13)	(2,060)
Maturities/Deaths	(2,491)	(354)	(701)	(3,546)
Net cash flows	(2,295)	(40)	88	(2,247)
Shareholders transfers post tax	(111)	–	–	(111)
Switches	(133)	133	–	–
Assumption changes (shareholder-backed business)	–	–	(64)	(64)
Investment-related items and other movements ^{note a}	3,171	358	1,405	4,934
Foreign exchange translation differences	(483)	(30)	–	(513)
At 30 June 2010	87,644	19,456	21,094	128,194

	SAIF and PAC with-profits sub-fund £m	Other funds and subsidiaries		Total £m
		Unit-linked liabilities £m	Annuity and other long-term business £m	
At 1 January 2009	82,108	16,318	17,535	115,961
Premiums	1,688	893	930	3,511
Surrenders	(1,181)	(798)	(29)	(2,008)
Maturities/Deaths	(2,688)	(345)	(603)	(3,636)
Net cash flows	(2,181)	(250)	298	(2,133)
Shareholders transfers post tax	(105)	–	–	(105)
Switches	(135)	135	–	–
Investment-related items and other movements	(1,347)	76	(45)	(1,316)
Foreign exchange translation differences	(22)	(1)	–	(23)
At 30 June 2009	78,318	16,278	17,788	112,384

Note

- a Investment-related items and other movements in the SAIF and PAC with-profits sub-fund are mainly as a result of unrealised gains on bond and property holdings counteracted by unrealised losses on equity securities.

ii US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2010	20,639	27,672	48,311
Premiums	3,524	2,132	5,656
Surrenders	(656)	(1,111)	(1,767)
Maturities/Deaths	(116)	(302)	(418)
Net cash flows ^{note b}	2,752	719	3,471
Transfers from general to separate account	496	(496)	–
Investment-related items and other movements ^{note c}	(1,273)	849	(424)
Foreign exchange translation differences ^{note a}	1,677	2,218	3,895
At 30 June 2010	24,291	30,962	55,253

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2009	14,538	30,823	45,361
Premiums	1,698	2,152	3,850
Surrenders	(475)	(1,769)	(2,244)
Maturities/Deaths	(108)	(296)	(404)
Net cash flows ^{note b}	1,115	87	1,202
Transfers from general to separate account	234	(234)	–
Investment-related items and other movements	659	225	884
Foreign exchange translation differences ^{note a}	(2,034)	(3,921)	(5,955)
At 30 June 2009	14,512	26,980	41,492

Notes

- a Movements in the period have been translated at an average rate of 1.5253 (half year 2009: 1.4928; full year 2009: 1.5656). The closing balance has been translated at closing rate of 1.4961 (half year 2009: 1.6469; full year 2009: 1.6149). Differences upon retranslation are included in foreign exchange translation differences.
- b Net cash flows (premiums less surrenders and maturities/deaths) were £3,471 million for the six months ended 30 June 2010 compared with £1,202 million for the six months ended 30 June 2009. These continuing strong positive in-flows reflected the increased new business volumes particularly of variable annuity business, in the period.
- c The negative investment-related and other movements in variable annuity separate account liabilities for the half year 2010 are mainly impacted by market movements in the period. The positive movement in investment and other movements of fixed annuity, GIC and other business primarily represents interest credited to policyholder accounts.

AA: Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds continued

iii Asian insurance operations

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
At 1 January 2010	8,861	9,717	3,333	21,911
Premiums				
New business ^{note b}	57	492	206	755
In force	423	595	295	1,313
	480	1,087	501	2,068
Surrenders	(237)	(472)	(149)	(858)
Maturities/Deaths	(148)	(15)	(43)	(206)
Net cash flows ^{note b}	95	600	309	1,004
Shareholders transfers post tax	(12)	–	–	(12)
Investment-related items and other movements ^{note d}	(47)	(320)	117	(250)
Foreign exchange translation differences ^{note a}	761	855	295	1,911
Acquisition of UOB Life Assurance Limited ^{note f}	504	3	461	968
At 30 June 2010	10,162	10,855	4,515	25,532

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
At 1 January 2009	8,094	7,220	5,755	21,069
Premiums				
New business ^{note b}	58	255	221	534
In force	358	576	244	1,178
	416	831	465	1,712
Surrenders	(207)	(197)	(94)	(498)
Maturities/Deaths	(133)	(9)	(24)	(166)
Net cash flows	76	625	347	1,048
Shareholders transfers post tax	(9)	–	–	(9)
Change in reserving basis in Malaysia ^{note c}	–	(9)	(54)	(63)
Investment-related items and other movements	981	1,374	22	2,377
Foreign exchange translation differences ^{note a}	(1,108)	(977)	(597)	(2,682)
Disposal of Taiwan agency business ^{note e}	–	(724)	(2,784)	(3,508)
At 30 June 2009	8,034	7,509	2,689	18,232

Notes

- a Movements in the period have been translated at the average exchange rate for the six months ended 30 June 2010. The closing balance has been translated at the closing spot rate as at 30 June 2010. Differences upon retranslation are included in foreign exchange translation differences.
- b New business premiums in the six months ended 30 June 2010 reflect the increase in new business sales.
- c The change in reserving basis in Malaysia of £63 million in 2009 reflects the change made following the adoption of a risk based capital (RBC) approach to the local regulatory reporting in that country.
- d The decrease in investment related and other items and other movements for with-profits and unit-linked business for the six months ended 30 June 2010 are mainly driven from Asian equity market losses in the period.
- e The disposal of Taiwan agency business in 2009 reflects the liabilities transferred at the date of disposal.
- f The acquisition of UOB Life Assurance Limited reflects the liabilities acquired at the date of acquisition.

AB: Share capital, share premium and own shares

	Half year 2010		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2010	2,532,227,471	127	1,843
Shares issued under share option schemes	2,438,918	–	13
Shares issued in lieu of cash dividends	4,538,026	–	26
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	–	(26)
At 30 June 2010	2,539,204,415	127	1,856
	Half year 2009		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2009	2,496,947,688	125	1,840
Shares issued under share option schemes	1,982	–	–
Shares issued in lieu of cash dividends	26,768,575	1	95
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	–	(95)
At 30 June 2009	2,523,718,245	126	1,840
	Full year 2009		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2009	2,496,947,688	125	1,840
Shares issued under share option schemes	605,721	–	3
Shares issued in lieu of cash dividends	34,674,062	2	136
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	–	(136)
At 31 December 2009	2,532,227,471	127	1,843

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 30 June 2010, there were options outstanding under Save As You Earn schemes to subscribe for 11,327,786 (30 June 2009: 13,190,059; 31 December 2009: 12,230,833) shares at prices ranging from 266 pence to 572 pence (30 June 2009: 266 pence to 572 pence; 31 December 2009: 266 pence to 572 pence) and exercisable by the year 2016 (2009: 2016). In addition, there are 17,292 (30 June 2009: 251,827; 31 December 2009: 17,292) conditional options outstanding under the Restricted Share Plan (RSP) and 7,287,645 shares (30 June 2009: 6,417,149; 31 December 2009: 6,644,203) under the Group Performance Share Plan (GPSP) exercisable at £nil cost.

The cost of own shares of £61 million as at 30 June 2010 (30 June 2009: £76 million; 31 December 2009: £75 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 30 June 2010, 4.5 million (30 June 2009: 4.6 million; 31 December 2009: 5.3 million) Prudential plc shares with a market value of £23 million (30 June 2009: £19 million; 31 December 2009: £34 million) were held in such trusts. Of this total, 4.1 million (30 June 2009: 4.3 million; 31 December 2009: 4.8 million) shares were held in trusts under employee incentive plans. In half year 2010, the Company purchased 4.1 million (30 June 2009: 1.1 million; 31 December 2009: 3.4 million) shares in respect of employee incentive plans at a cost of £18.9 million (30 June 2009: £4.0 million; 31 December 2009: £17 million). The maximum number of shares held in the half year 2010 was 5.3 million which was at the beginning of the period.

Of the total shares held in trust, 0.3 million (30 June 2009: 0.3 million; 31 December 2009: 0.5 million) shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes.

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2010 was 9.7 million (30 June 2009: 11.9 million; 31 December 2009: 10.6 million) and the cost of acquiring these shares of £46 million (30 June 2009: £55 million; 31 December 2009: £51 million) is included in the cost of own shares. The market value of these shares as at 30 June 2010 was £49 million (30 June 2009: £51 million; 31 December 2009: £67 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

AC: Contingencies and related obligations

There have been no material changes to the Group's contingencies and related obligations in the six month period ended 30 June 2010. An update to one of the Group's contingencies and related obligations since 31 December 2009 is set out below.

Jackson owns debt instruments issued by securitisation trusts managed by PPM America. As disclosed in the 2009 Annual Report, as at 31 December 2009, the support provided by certain forbearance agreements Jackson entered into with the counterparty to certain of these trusts could potentially expose Jackson to maximum losses of US\$750 million, if circumstances allowed the forbearance period to cease. At 30 June 2010, the support provided by these agreements could potentially expose Jackson to maximum losses of US\$512 million. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreements is remote.

The Group is also involved in other litigation and regulatory issues. Whilst the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

AD: Related party transactions

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2009.

There were no transactions with related parties during the six months ended 30 June 2010 which have had a material effect on the results or financial position of the Group.

AE: Post balance sheet events

Change to the Group's holding in PruHealth and PruProtect

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

The accounting impact of this transaction including any dilution gain or loss is being assessed and will be included with the Group's full year financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Half Year Financial Report in accordance with applicable law and regulations.

Accordingly, the directors confirm that to the best of their knowledge:

- the condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union;
- the Half Year Financial Report includes a fair review of information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2010, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2010 and that have materially affected the financial position or the performance of the Group during the period and changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2009.

The current directors of Prudential plc are as listed in the Group's 2009 Annual Report.

Combined IFRS basis results and EEV basis results report > Independent review report to Prudential plc

Introduction

We have been engaged by the Company to review the International Financial Reporting Standards (IFRS) basis financial information in the Half Year Financial Report for the six months ended 30 June 2010 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes and Total Insurance and Investment Products New Business information.

We have also been engaged by the Company to review the European Embedded Value (EEV) basis supplementary information for the six months ended 30 June 2010 which comprises the Operating Profit Based on Longer-Term Investment Returns, the Summary Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes.

We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the IFRS basis financial information or the EEV basis supplementary financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the United Kingdom's Financial Services Authority ('the UK FSA') and also to provide a review conclusion to the Company on the EEV basis supplementary financial information. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. Our review of the supplementary information has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Half Year Financial Report, including the IFRS basis financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half Year Financial Report in accordance with the DTR of the UK FSA. The directors have accepted responsibility for preparing the EEV basis supplementary financial information contained in the Half Year Financial Report in accordance with the European Embedded Value Principles issued in May 2004 by the European CFO Forum ('the EEV Principles') using the methodology and assumptions set out in notes 1 and 16 to the EEV basis supplementary financial information.

The annual IFRS basis financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union (EU). The IFRS basis financial information included in this Half Year Financial Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

The EEV basis supplementary financial information has been prepared in accordance with the EEV principles using the methodology and assumptions set out in notes 1 and 16 to the EEV basis supplementary financial information. The supplementary information should be read in conjunction with the IFRS basis financial information.

Our responsibility

Our responsibility is to express to the Company a conclusion on the IFRS basis financial information and the EEV basis supplementary financial information in the Half Year Financial Report based on our review, as set out in our engagement letter with you dated 23 November 2009. We report to you whether the Prudential EEV condensed set of financial statements in the Half Year Financial Report have been properly prepared, in all material respects, in accordance with the Basis of Preparation set out in note 1 to the EEV basis supplementary financial information.

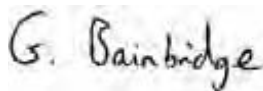
Scope of review

We conducted our reviews in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information and supplementary information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the IFRS basis financial information in the Half Year Financial Report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 1 and 16 to the EEV basis supplementary financial information.



G Bainbridge

for and on behalf of KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

11 August 2010