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**PRUDENTIAL**

**Prudential plc**

英國保誠有限公司\*

*(Incorporated and registered in England and Wales under the number 01397169)*

**(Stock code: 2378)**

**PRESS RELEASE AND  
ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

## STRATEGY CONTINUES TO DELIVER STRONG PERFORMANCE

### Embedded Value:

- New business profit of £892 million, up 27%<sup>1</sup>
- Operating profit of £1,677 million, up 35%
- Shareholders' funds of £16.7 billion, equivalent to 657 pence per share

### IFRS:

- Operating profit of £968 million up 41%<sup>2</sup>, underlying operating profit up 19%
- Shareholders' funds of £7.2 billion up 14%

### New Business:

- Total APE sales of £1,655 million up 28%<sup>1</sup>
- New business profit margin (% APE) of 54%
- Investment in new business – broadly flat at £337<sup>1</sup> million (2009: £319 million)

### Capital & Dividend:

- Insurance Groups Directive (“IGD”) capital surplus estimated at £3.4 billion
- Underlying free surplus generation up 63% to £947 million
- 2010 half year dividend increased by 5% to 6.61 pence per share

Commenting on the half year results, Tidjane Thiam, Group Chief Executive said:

“Prudential has delivered strong results during the first half of 2010 as we continued to allocate capital to the geographies and products with the best profitable growth prospects, in line with our strategy. We have been able to generate significant, profitable and capital efficient growth across the Group: our sales have increased by more than a quarter, the higher level of margin achieved in 2009 has been maintained during the first half and we have done this consuming broadly the same amount of capital as last year.

Asia remains the region with the best potential for high and profitable growth, and despite our disappointment at not being able to further accelerate our strategy through the transaction with AIA, the prospects for future profitable organic growth remain excellent. In Asia, new business sales were £713 million, an increase of 36 per cent on the same period last year (2009: £524 million). This growth was broadly based, with all markets except Korea (where we have decided to limit our growth as part of our ‘value over volume’ discipline) recording double digit growth rates. IFRS operating profit was up 24 per cent to £262 million (2009: £212 million).

In the US, Jackson continued to focus on growing our sales of variable annuities whilst managing fixed annuity sales to optimise capital consumption and returns. It delivered APE retail sales of £560 million (2009: £392 million), up 43 per cent, while new business profit was £361 million, up 24 per cent.

In the UK, we maintained our strategy of ‘value over volume’, deploying capital efficiently and profitably to our core strengths, with-profits and annuities. Total APE sales were £382 million, up 2 per cent on the same period last year (2009: £376 million) and new business profit increased by 11 per cent to £135 million.

Our asset management businesses had a strong first half, as we continued to deliver superior investment returns in the market. Overall the Group saw net inflows of £4.4 billion and in Asia, external funds under management grew to £20.3 billion, up 24 per cent (2009: £16.4 billion).

As a result of this strong performance, I am pleased to announce that we have increased our interim dividend by 5 per cent to 6.61 pence per share.

We have significant opportunities for profitable growth and the financial strength to take advantage of those opportunities. We are cautious about the outlook for the western economies. However, our Asian business gives us a material and powerful presence in the most attractive markets in our industry, and one that will continue to underpin our growth.

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<sup>1</sup> Excludes Japan which ceased writing new business in 2010

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

So we view the future with confidence. We expect the momentum that we have seen in our businesses during the first half to be sustained during the rest of the year. As we look further ahead, beyond the second half, we are well positioned to continue to deliver strong growth and generate strong returns for our shareholders, thanks to our operational focus and strong market positions. ”

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**Notes to Editors:**

1. The results in this announcement are prepared on two bases: International Financial Reporting Standards ('IFRS') and European Embedded Value ('EEV'). The IFRS basis results form the basis of the Group's statutory financial statements. The supplementary EEV basis results have been prepared in accordance with the principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate the EEV basis results include the effects of IFRS.  
Period on period percentage increases are stated on an actual exchange rate basis.
2. Asia 2010 and 2009 comparative APE new business sales and new business profit (NBP) exclude the Taiwan agency business disposed of during the second quarter of 2009 and the Japanese insurance operations which we have closed to new business with effect from 15 February 2010.
3. Annual premium equivalent (APE) sales comprise regular premium sales plus one-tenth of single premium insurance sales.
4. Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, transaction costs arising from business combinations in the period, costs associated with the terminated AIA transaction, and the effect of disposal and results of the Taiwan agency business, for which the sale process was completed in June 2009. In addition for EEV basis results, operating profit excludes the effect of changes in economic assumptions and the time value of cost of options and guarantees, and the market value movement on core borrowings.
5. There will be a conference call today for wire services at 07.30am GMT+01:00 London (Summer Time) hosted by Tidjane Thiam, Group Chief Executive. Dial in telephone number: +44(0)20 7075 1520. Passcode: 606607#
6. A presentation to analysts will take place at 09.30am GMT+01:00 London (Summer Time) at The London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Dial in telephone number: +44 (0)20 8817 9301. Passcode: 3332697#. An audio cast of the presentation and the presentation slides will be available on the Group's website, <http://www.prudential.co.uk/prudential-plc/investors/>
7. High resolution photographs are available to the media free of charge at [www.newscast.co.uk](http://www.newscast.co.uk) on +44 (0)20 78886 5895 or by calling Prudential press office on +44 (0)20 7548 2466.
8. Total number of Prudential plc shares in issue as at 30 June 2010 was 2,539,204,415.

## 9. Financial Calendar 2010:

Third Quarter 2010 Interim Management Statement 10 November 2010

### 2010 Interim Dividend

Ex-dividend date	18 August 2010 (UK, Irish and Singapore shareholders)
	19 August 2010 (Hong Kong shareholders)
Record date	20 August 2010
Payment of dividend	23 September 2010 (UK and Irish shareholders)
	24 September 2010 (Hong Kong shareholders)
	30 September 2010 <sup>3</sup> (Singapore shareholders)

The Company will be offering a scrip dividend alternative and details will be made available on the Group's website.

## 10. About Prudential plc

Prudential plc is a company incorporated and with its principal place of business in England, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. It has been in existence for over 160 years and has £309 billion in assets under management (as at 30 June 2010). Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

## 11. Forward-Looking Statements

This statement may contain certain "forward-looking statements" with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency standards or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules, the Hong Kong Listing Rules or the SGX-ST listing rules.

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<sup>3</sup> The Singapore dividend will be paid to shareholders on or about 30 September 2010

# PRUDENTIAL PLC UNAUDITED HALF YEAR 2010 RESULTS

## RESULTS SUMMARY

### European Embedded Value (EEV) Basis Results\*

	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m
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
Other income and expenditure	(262)	(195)	(433)
Restructuring and Solvency II implementation costs	(27)	(14)	(27)
<b>Operating profit based on longer-term investment returns*</b>	<b>1,677</b>	<b>1,246</b>	<b>3,090</b>
Short-term fluctuations in investment returns	(227)	(707)	351
Mark to market value movements on core borrowings	(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	(52)	(384)	(910)
Costs of terminated AIA transaction	(377)	-	-
Profit on sale and results of Taiwan agency business	-	91	91
<b>Profit from continuing operations before tax (including actual investment returns)</b>	<b>954</b>	<b>67</b>	<b>1,743</b>
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests)	<b>48.0p</b>	35.4p	88.8p
Shareholders' equity, excluding non-controlling interests	<b>£16.7 bn</b>	£13.7bn	£15.3bn

### International Financial Reporting Standards (IFRS) Basis Results\*

#### Statutory IFRS basis results

	Half year 2010	Half year 2009	Full year 2009
Profit/(loss) after tax attributable to equity holders of the Company	£442m	£(254)m	£676m
Basic earnings per share	17.5p	(10.2)p	27.0p
Shareholders' equity, excluding non-controlling interests	£7.2bn	£4.7bn	£6.3bn

#### Supplementary IFRS basis information

	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m
Operating profit based on longer-term investment returns*	968 <sup>1</sup>	688	1,405
Short-term fluctuations in investment returns on shareholder-backed business	26	(80)	36
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(24)	(63)	(74)
Costs of terminated AIA transaction	(377)	-	-
Loss on sale and results of Taiwan agency business	-	(621)	(621)
<b>Profit (loss) from continuing operations before tax attributable to shareholders</b>	<b>593</b>	<b>(76)</b>	<b>746</b>
Operating earnings per share* (reflecting operating profit based on longer-term investment returns after related tax and non-controlling interests)	<b>28.6p</b>	20.5p	43.4p

	Half year 2010	Half year 2009	Full year 2009
<b>Dividends per share declared and paid in reporting period</b>	<b>13.56p</b>	12.91p	19.20p
<b>Dividends per share relating to reporting period</b>	<b>6.61p</b>	6.29p	19.85p
<b>Funds under management</b>	<b>£309bn</b>	£245bn	£290bn
<b>Insurance Groups Directive capital surplus (as adjusted)*</b>	<b>£3.4bn</b>	£2.5bn	£3.4bn

<sup>1</sup> The Group IFRS operating profit of £968 million includes £123 million of net equity hedging gains (half year 2009: £23 million losses; full year 2009: £159 million losses) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of guarantees in Jackson's variable and fixed index annuity products, a significant proportion of which are not fair valued, net of related DAC. Excluding these amounts, which are variable in nature, Group IFRS operating profit increased by 19 per cent as compared to half year 2009.

\* **Basis of preparation**

**Results bases**

*The EEV basis results have been prepared in accordance with the European Embedded Value Principles issued by the CFO Forum of European Insurance Companies in May 2004. Life insurance products are, by their nature, long-term and the profit on this business is generated over a significant number of years. Accounting under IFRS alone does not, in Prudential's opinion, fully reflect the value of future profit streams. Prudential considers that embedded value reporting provides investors with a measure of the future profit streams of the Group's in-force long-term businesses and is a valuable supplement to statutory accounts. With the exception of the presentation of the new business results of the Japan life operation which ceased writing new business in February 2010 there has been no change to the basis of presentation of the EEV results from the 2009 results and financial statements.*

*With the exception of the adoption of IFRS 3 (Revised) on business combinations, the basis of preparation of the statutory IFRS basis results and supplementary IFRS basis information is consistent with that applied for the 2009 results and financial statements.*

**Exchange translation**

*The comparative results have been prepared using previously reported exchange rates, except where otherwise stated.*

**Operating profit based on longer-term investment returns**

*Consistent with previous reporting practice, the Group analyses its EEV basis results and provides supplementary analysis of IFRS profit before tax attributable to shareholders, so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. On both the EEV and IFRS bases, operating earnings per share are calculated using operating profits based on longer-term investment returns, after related tax and non-controlling interests.*

*These profits exclude short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. The operating profit based on longer-term investment returns for 2010 also excludes the costs associated with the terminated AIA transaction. In addition, similarly and consistently with the presentation in 2009, the effect of disposal and the results of the Taiwan agency business are shown separate from operating profit based on longer-term investment returns for half year 2009 and full year 2009.*

*Under the EEV basis, where additional profit and loss effects arise, operating profit based on longer-term investment returns also excludes 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.*

*After adjusting for related tax and non-controlling interests, the amounts excluded from operating profit based on longer-term investment returns are included in the calculation of basic earnings per share*

**Insurance Groups Directive capital surplus (as adjusted)**

*The estimated surpluses shown for half year 2010 and half year 2009 are before allowing for the interim dividends for 2010 and 2009 respectively. The surplus for full year 2009 is before the 2009 second interim dividend.*

## **GROUP CHIEF EXECUTIVE'S REPORT - 2010 First Half Results**

I am pleased to report that Prudential continued to perform strongly in the first half of 2010, achieving high levels of sales growth and new business profits.

Our determination to consistently allocate capital to the geographies and products that deliver the highest returns for our shareholders is continuing to deliver positive results. Our rates of return in Asia remain high, we are driving profitable growth in the US, our focused strategy in the UK continues to deliver amongst the highest margins in the sector, as well as being cash generative, and our asset management businesses continue to perform very well.

The results we are reporting today show considerable growth on the first half of 2009, a period of marked economic dislocation. To better assess the long term progress of the business, it is also useful to compare our performance during the first half of 2010 with our results in the first half of 2008, a period of relatively favourable economic and market conditions. Since the first half of 2008, new business profits have grown by 59 per cent<sup>1</sup>, EEV operating profit before tax by 24 per cent and IFRS operating profit before tax by 37 per cent, excluding US hedging gains in both periods.

The first half of this year has also seen us maintain our robust capital position of £3.4 billion (31 December 2009: £3.4 billion) despite the payment of the 2009 final dividend and the AIA transaction costs.

### **AIA Transaction**

Alongside the strong performance of the business, the first half of 2010 was dominated by our proposed acquisition of AIA, the Asian arm of AIG. The Board unanimously believed that this acquisition represented a unique opportunity to significantly amplify and accelerate our successful strategy in Asia. It was an opportunity which was available to us only because of the quality and standing of the Group.

On 1 March 2010 we announced we had reached agreement with AIG to acquire AIA. We subsequently re-negotiated a lower price with the AIG management in May. This revised bid was supported by AIG's executive management. However, the Board of AIG decided not to sell AIA to us and as a result the agreement was terminated on 3 June 2010. We very much regret that this transaction did not proceed and that costs were incurred.

The total cost to the Group from terminating the agreement, including the associated US dollar hedging programme, was £377 million pre-tax, and £284 million post expected tax relief. These costs comprised: the break fee of £153 million paid to AIG; foreign exchange hedge cost of £100 million; underwriting fees of £58 million; and adviser fees of £66 million, less expected tax relief of £93 million. Our prudent initial estimate that the pre-tax costs would be £450 million was reduced as we closed the foreign exchange hedging positions and worked with our suppliers and advisers to minimise costs. The costs associated with the transaction will not impact the Group's dividend policy.

While the proposed AIA transaction was high profile and attracted a great deal of interest, the Group continued to perform strongly. I would like to take this opportunity to thank our employees across the Group for their hard work and continued commitment to our customers throughout this challenging period.

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<sup>1</sup> Excludes Japan, which ceased writing new business in 2010.

## **Group Performance**

We continue to manage the Group with a balance across the three metrics of Embedded Value, International Financial Reporting Standards (IFRS) and cash, as we believe this is the best way to generate value for our shareholders over the long term.

On the European Embedded Value (EEV) basis, Group operating profit before tax increased by 35 per cent over 2009, to £1,677 million (2009: £1,246 million). New business profit for the period was £892 million, an increase of 27 per cent (2009: £700 million), and the average margin across the Group was maintained at 54 per cent (2009: 54 per cent), excluding Japan where we stopped writing new business this year.

In achieving this growth in new business profit, our absolute investment in new business remained broadly flat compared to the first half of 2009 at £337 million (2009: £319 million). This demonstrates a marked increase in our capital efficiency as our sales grew significantly during the same period. We continued to focus on the opportunities with the highest returns, lowest capital requirements and shortest payback periods.

Our IFRS operating profit before tax from continuing operations increased by 41 per cent in the first half of 2010 to £968 million (2009: £688m). These results include £123 million of variable equity hedge gains in our US operations (2009: equity hedge losses of £23 million). Excluding these variable hedge gains, there was an increase of 19 per cent in the first half of 2010 to £845 million (2009: £711 million), which is a better reflection of our underlying performance over the previous year and constitutes excellent progress.

Asset management net inflows were £4.4 billion (2009: £10.1 billion). Although this is down against the same period last year, which saw exceptional inflows into M&G's bond funds as a result of the financial crisis, this remains a leading performance driven by continuing strong inflows into M&G's retail funds.

As a key indicator of our ability to generate cash and capital, the free surplus in the life and asset management operations increased to £3.2 billion, up from £2.5 billion at the end of 2009 and £0.9 billion at the end of 2008. Embedded value shareholders' funds increased 9 per cent to £16.7 billion (2009: £15.3 billion) and IFRS shareholders' funds rose 14 per cent to £7.2 billion (2009: £6.3 billion).

## **Capital and Risk Management**

As a consequence of our actions and ongoing operational performance, the capital position of the Group remains robust. Using the regulatory measure of the Insurance Groups Directive (IGD), the Group's capital surplus was estimated at £3.4 billion at 30 June 2010 (before any allowance for the 2010 interim dividend). The Group's required capital is covered 2.7 times by available capital. This positions us as one of the best capitalised insurers.

## **Interim Dividend**

Given the sound financial position of the Group, and our continuing strong financial performance, the Board has agreed an increase of five per cent in the interim dividend to 6.61 pence per share (2009: 6.29p). The Board remains committed to a growing dividend policy, with the level of dividend determined after taking into account the Group's financial requirements, including opportunities to invest in the business at attractive returns. As previously stated, the Board believes that in the medium term a dividend cover of around two times is appropriate.



### **Hong Kong and Singapore Listings**

On 25 May 2010, we announced the listing of our ordinary shares on the main board of the Stock Exchange of Hong Kong Limited as a dual primary listing alongside our primary listing of ordinary shares in London. In addition, we also listed our ordinary shares on the Singapore Exchange Securities Trading Limited.

The listings were by way of introduction, with no new shares being issued or sold to the public or investors, and over the longer-term will offer a wider range of investors the opportunity to invest in Prudential. These listings further underline the Group's long-term commitment to Asia, deepening our presence in the region's dynamic business environment and raising our profile with governments, local business communities and our customers and staff.

### **Our Strategy**

We have managed the Group to a clear and consistent strategy, applying rigorous operating principles. We have continued to (i) prioritise our highly profitable growth in Asia, (ii) put an emphasis on growth and cash generation in the US, (iii) focus on sustainable cash generation in the UK ahead of growth and (iv), in our asset management businesses, focus on generating strong investment performance, which is the foundation of our ability to attract flows and increase assets under management.

By maintaining our discipline in the implementation of this strategy, allocating capital to the most attractive markets and products, and managing proactively risk and capital, we believe we can continue to generate sustainable and differentiated value for our shareholders. Over the past two years our strategy has proven its worth under the most testing conditions, and it has continued to deliver a very good performance amid the improving global conditions experienced in the first half of 2010.

Many of the highest return opportunities are in Asia. We find the emerging markets of South East Asia - such as Indonesia, Vietnam, Singapore and Malaysia, together with Hong Kong - particularly attractive. These remain the priority destination for our marginal capital investment. Even within Asia, we remain committed to focusing our capital on the areas with the highest returns. This disciplined and pragmatic approach led us to decide to stop writing new business in Japan at the start of 2010. In a sector where distribution is key, we have been growing and diversifying our distribution, including increasing our agency workforce and completing a long-term strategic bancassurance partnership with United Overseas Bank Limited ("UOB").

In the US, the world's largest retirement market, we continue to see opportunities for high returns. During the first half of 2010, the US financial services industry remained under pressure. This created opportunities for us, with our strong financial ratings and product set. We have established a reputation as a high-quality and reliable business partner. We remain focused on increasing volumes profitably in variable annuities, whilst managing fixed annuity sales in line with our strategy of capital efficiency.

The UK is a mature market with lower growth and lower returns than are available to us elsewhere in the Group's portfolio. By maintaining a balance between writing profitable new business and generating surplus cash, the Group is able to invest the surplus cash we generate in the UK into markets with higher returns. Our financial performance in the UK provides strong support to our credit rating at a Group level and continues to be a significant contributor to our overall performance.

Our asset management businesses provide high quality profits and cash, have limited capital requirements and are central to the successful delivery of our strategy, as investment returns are at the core of our value proposition to our customers.

## **Our Operating Performance**

Our operating model enables each of our businesses to stay close to their customers, by identifying and developing the specific product and distribution mix most suited to their particular market and customer base. Our aim in all our markets is to have a suite of savings, income and protection products that deliver good value and meet customers' needs in a profitable and capital efficient manner.

Looking at the operating performance of each of our business units, I am pleased to report a strong performance in the first half of 2010.

### **Prudential Corporation Asia**

The Asia life insurance sector has done well during the first half as the region recovered from the economic downturn. Our approach remains to expand our distribution reach via our proprietary agency distribution and through partnerships, together with a continued focus on improving our productivity. Agency remains the main distribution channel and agent numbers continue to grow. Bank distribution has performed well and is growing, with our new partnership with UOB already generating significant sales. This is important for the future, as the banking distribution channel will grow, as the region becomes wealthier and banking penetration increases.

In line with the Group's strategy, we continue to manage proactively and rigorously our investment in new business, focusing on value creation, particularly with high margin regular premium business. New business written in the period has an average internal rate of return (IRR) in excess of 20 per cent and an average payback period of three years.

### **Jackson National Life**

We continue to benefit from the market observed in the US in 2008 and 2009. Our focus remains on increasing volumes profitably in variable annuities whilst managing proactively the level of our fixed annuity sales and maintaining pricing discipline. In light of the continued volatility in US equity markets and low interest rates, customers continue to seek to mitigate equity risk while receiving an acceptable return through the purchase of variable and fixed annuities with guaranteed benefits. We have continued to expand the number of advisers appointed to sell our products, building on the 35 per cent increase in adviser numbers in 2009. We have also continued to invest in the bancassurance channel, which has been expanded recently through agreements with new distribution partners including Merrill Lynch.

As expected, new business margins reduced to 64 per cent from the exceptional level of 74 per cent in the same period in 2009. This was anticipated as the corporate bond market recovered, the abnormally high spreads in 2009 normalised and our competitors progressively recovered from the 2008/2009 market dislocation. Nevertheless, business conditions remain favourable and we continue to write new business at an IRR in excess of 20 per cent with an average payback of two years.

### **Prudential UK and Europe**

Our UK business is a valuable part of the Group and a market leader in both individual annuities and with-profits. In the first half we maintained a focus on balancing writing new business, with cash and capital generation, successfully delivering attractive returns on capital employed. Our business in the UK is disciplined, generating very attractive returns relative to the market.

During the first half of 2010, we continued to actively manage sales volumes to control capital consumption, with new business concentrated in the retail markets. We have maintained a strict focus on value in the bulk annuity and back-book markets and wrote no new business in this area during the period. The weighted average post-tax IRR on the shareholder capital allocated to new business growth was in excess of 15 per cent and the average free surplus undiscounted payback period was five years.

### **Asset Management**

Our asset management businesses have continued to capitalise on their leading market positions and strong track records in investment performance. In the UK, M&G has been the leading net seller of retail funds for six consecutive quarters, driven by excellent investment performance. Over the three years ending 30 June 2010, 34 per cent of M&G's retail funds ranked in the top quartile and 66 per cent in the top half. M&G continues to add value to the Group by generating attractive returns on internal funds as well as growing profits from the management of third-party assets.

In Asia, the first half performance of our asset management business has been very strong, with a significant increase in profitability. Given the increasing wealth in the region, we see asset management as a very attractive opportunity.

### **Outlook**

We have significant opportunities for profitable growth and the financial strength to take advantage of those opportunities. We are cautious about the outlook for the western economies. However, our Asian business gives us a material and powerful presence in the most attractive markets in our industry, and one that will continue to underpin our growth.

So we view the future with confidence. We expect the momentum that we have seen in our businesses during the first half to be sustained during the rest of the year. As we look further ahead, beyond the second half, we are well positioned to continue to deliver strong growth and generate strong returns for our shareholders, thanks to our operational focus and strong market positions.

## BUSINESS REVIEW

### CFO OVERVIEW

Prudential's strong performance in the first six months of 2010, as shown in our results below, reflects the successful execution of the Group's strategy and builds on the momentum seen in 2009. We have continued to balance profitable growth, capital conservation and cash generation to both preserve our financial strength and improve our long-term profitability. The 2010 interim results underline our value focus with all of our business operations reporting profitability improvements. In line with our disciplined approach of investing our capital in those markets and products with the highest return and shortest payback periods, we focused our efforts on the Asian region (particularly South-East Asia) and the US variable annuity business. New business APE sales<sup>1</sup> rose 28 per cent compared with the same period last year, with new business sales in Asia<sup>1</sup> and the US rising by 36 per cent and 43 per cent respectively. EEV new business profits rose by 27 per cent in the first six months of 2010 with the capital being invested in new business increasing by only six per cent. This sustained focus on new business cash and capital coupled with strong management of our in-force book has seen us improve our operating free surplus generated by 63 per cent and maintain a strong IGD solvency capital position.

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

### Performance and key metrics

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

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

<sup>1</sup> Excludes Japan which ceased writing new business in 2010.

- (1) *New business sales, profits and free surplus invested in new business exclude the results of the Japanese life operation which ceased writing new business in February 2010, and the results of the Taiwan agency business for which the sale process was completed in June 2009.*
- (2) *Long-term business profits after deducting Asia development expenses and before restructuring and Solvency II implementation costs.*
- (3) *Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, transaction costs arising from business combinations in the period, costs associated with the terminated AIA transaction, and the effect of disposal and results of the Taiwan agency business, for which the sale process was completed in June 2009. In addition for EEV basis results, operating profit excludes the effect of changes in economic assumptions and the time value of cost of options and guarantees, and the market value movement on core borrowings. In half year 2010 the IFRS operating profits of Jackson National Life, the Group's US life operation included the benefit of an unusually high level of net equity hedge gains of £123 million.*
- (4) *Insurance Groups Directive capital surplus (as adjusted). The estimated surpluses shown for half year 2010 and half year 2009 are before allowing for the interim dividends for 2010 and 2009 respectively. The surplus for full year 2009 is before the 2009 second interim dividend.*
- (5) *Free surplus - investment in new business represents the reduction in EEV net worth together with EEV required capital to support the new business acquired.*
- (6) *Annualised return on embedded value is based on EEV operating profit after tax and non-controlling interests as a percentage of opening EEV basis shareholders' funds. Half year profits are annualised by multiplying by two.*
- (7) *Operating free surplus generated comprises underlying free surplus generated in the period from the Group's insurance and asset management operations less investment in new business.*
- (8) *Actual Exchange Rate (AER) and Constant Exchange Rate (CER)*

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

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

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

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<sup>1</sup> Excludes Japan which ceased writing new business in 2010.

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

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

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

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

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

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

In view of the strong operational performance and in line with our dividend policy, the Board has declared an interim dividend of 6.61pence per share, five per cent higher than the 2009 interim dividend. Hong Kong shareholders on the Hong Kong branch register will receive a dividend of HK\$.8038, which equates to the sterling value as translated at the exchange rate ruling at the close of business on 11 August 2010<sup>3</sup>.

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<sup>1</sup> Excludes Japan which ceased writing new business in 2010.

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

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

## EEV RESULTS

### EEV basis operating profit based on longer-term investment returns

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

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

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

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

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

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

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

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

<sup>1</sup> Excludes Japan which ceased writing new business in 2010.

## EEV basis profit after tax and non-controlling interests

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

### Short-term fluctuations in investment returns

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

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

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

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

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

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



#### Mark-to-market movement on core borrowings

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

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

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

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

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

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

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

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

#### Costs of terminated AIA transaction

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

#### Effective tax rates

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

## IFRS RESULTS

### IFRS basis operating profit based on longer-term investment returns

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

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

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

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

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

<sup>2</sup> Excludes Japan which ceased writing new business in 2010.

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

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

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

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

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

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

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

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

\*Excluding amounts for equity hedge and related effects.

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

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

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

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

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

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

## IFRS basis profit after tax

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

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

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

### IFRS short-term fluctuations in investment returns

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

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

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

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

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

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

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

### Costs of terminated AIA transaction

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

### Effective tax rates

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

## **EARNINGS AND DIVIDEND PER SHARE**

### **Earnings per share**

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

### **Dividend per share**

The 2010 interim dividend of 6.61 pence per ordinary share will be paid on 23 September 2010 in sterling to shareholders on the principal and Irish branch registers at 6.00 pm BST on Friday 20 August 2010 (the "Record Date"), on 24 September 2010 in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30 pm Hong Kong time on the Record Date ("HK Shareholders"), and on or about 30 September 2010 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited ("CDP") at 5.00 pm Singapore time on the Record Date ("SG Shareholders"). The dividend payable to the HK Shareholders will be HK\$.8038 per ordinary share, which equates to the sterling value translated at the exchange rate ruling at the close of business on 11 August 2010. The exchange rate at which the dividend payable to the SG Shareholders will be translated into SG\$ will be determined by CDP.

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

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

## MOVEMENT ON SHAREHOLDERS' FUNDS

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

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

### EEV

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

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

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

IFRS

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

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



## FREE SURPLUS AND HOLDING COMPANY CASH FLOW

### Free surplus generation

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

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

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

The total movement in free surplus net of tax in the period can be analysed as follows:

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

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

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

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

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<sup>1</sup> Excludes Japan which ceased writing new business in 2010.

## Value created through investment in new business by life operations

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

  

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

  

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

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

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

In Asia, investment in new business<sup>1</sup> was £123 million, which was up 12 per cent compared to 2009 on a CER basis (£110 million). This compares to a 28 per cent increase in new business sales (APE) on a CER basis. For each £1 million of free surplus invested we generated £2.4 million of post-tax new business contribution to embedded value (excluding Japan) (2009: £2.0 million). This increase arises both from a shift in business mix to the high margin territories of South-East Asia and Hong Kong and a lower capital strain as a result of a change in the product mix to more efficient participating and linked products. The reduced strain is offset by negative changes principally arising from the adoption of higher new business required capital levels in a number of businesses in the second half of 2009. The average free surplus undiscounted payback period for business written in the 6 months to 30 June 2010 was 3 years (2009: 4 years).

In the US, investment in new business was £179 million, 9 per cent higher than 2009 on a CER basis (£164 million) considerably lower than the 46% increase in APE new business sales on a CER basis. For each £1 million of free surplus invested we generated £1.3 million of post-tax new business contribution to embedded value (2009: £1.1 million). This higher return reflects a change in business mix with a higher proportion of capital light variable annuity business and a reduced proportion of more capital intensive fixed annuities. The average free surplus undiscounted payback period for business written in the 6 months to 30 June 2010 was 2 years (2009: 2 years).

In the UK, investment in new business decreased by 22 per cent from £45 million in 2009 to £35 million in 2010. This decrease compares with a 2% increase in APE new business sales in the period. For each £1 million of free surplus invested we generated £2.8 million of post-tax new business contribution to embedded value (2009: £1.9 million) reflecting our value focus. The average free surplus undiscounted payback period for business written in the 6 months to 30 June 2010 was 5 years (2009: 5 years).

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<sup>1</sup> Excludes Japan which ceased writing new business in 2010.

## Holding company cash flow

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

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

\* Including central finance subsidiaries.

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

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

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

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

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

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

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

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

## BALANCE SHEET

### Summary

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

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

### Investments

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

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

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

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

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

*Policyholder liabilities and unallocated surplus of with-profits funds*

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

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

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

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

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



*Shareholders' net borrowings and ratings*

Shareholders' net borrowings at 30 June 2010:

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

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

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

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

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

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

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

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

#### Financial position on defined benefit pension schemes

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

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

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

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

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

#### Changes to Group holdings during the period

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

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

## **Risk and capital management**

As a provider of financial services, including insurance, we recognise that the managed acceptance of risk lies at the heart of our business. As a result, effective risk management capabilities represent a key source of competitive advantage for our Group.

The Group's risk appetite framework sets out our tolerance to risk exposures as well as our approach to risk management and return optimisation. Under this approach, we monitor our risk profile continuously against agreed limits. Our main strategies for managing and mitigating risk include asset liability management, using derivatives to hedge relevant market risks, and implementing reinsurance and corporate insurance programmes.

Our risk exposure and approach to risk management were described in detail in our 2009 year-end report and remain valid.

### **1 Financial risks**

#### ***a Market risk***

##### **i Equity risk**

In the UK business, most of our equity exposure is incurred in the with-profits fund, which includes a large inherited estate estimated at £5.9 billion as at 30 June 2010 (30 June 2009: £5.0 billion), which can absorb market fluctuations and protect the fund's solvency. The inherited estate itself is partially protected against falls in equity markets through an active hedging policy.

In Asia, a high proportion of our in-force book is made up of unit-linked products with limited shareholder exposure to equities. We have minimal direct shareholder exposure to Asian equity markets outside our unit-linked holdings.

In the US, where we are a leading provider of variable annuities, there are well-understood risks associated with the guarantees embedded in our products. We provide guarantees for minimum death benefits (GMDB) on all policies in this class, minimum withdrawal benefits (GMWB) on 59 per cent of the book, and minimum income benefits (GMIB) on only seven per cent. To protect the shareholders against the volatility induced by these embedded options, we use both a comprehensive hedging programme and reinsurance. Due to the inability to economically reinsure or hedge the GMIB, Jackson ceased offering this benefit in 2009.

In our variable annuity sales activities, we focus on meeting the needs of conservative and risk averse customers who are seeking reliable income in retirement, and who display little tendency to arbitrage their guarantees. These customers generally select conservative investment options. We are able to meet the needs of these customers because our unique and market leading operational platform allows us to tailor more than 1,700 product combinations.

It is our philosophy not to compete on price. Our individual guarantees tend to be more expensive than the market average because we seek to sell at a price capable of funding the cost we incur to hedge or reinsure our risks.

We use a macro approach to hedging that covers the entire risk in the US business. Within this macro approach we make use of the natural offsets that exist between the variable annuity guarantees and the fixed index annuity book, and then use a combination of OTC options and futures to hedge the residual risk, allowing for significant market shocks and limiting the amount of capital we are putting at risk. Internal positions are generally netted before any external hedge positions are considered. The hedging programme also covers the fees on variable annuity guarantees.

Jackson hedges the economics of its products rather than the accounting result. Accordingly, while its hedges are effective on an economic basis, due to different accounting treatment for the hedges and some of the underlying hedged items on an IFRS basis, the reported income effect is more variable. As previously highlighted this resulted in recognition of £123 million of equity hedge gains in the period (net of related DAC amortisation) as compared to £23 million of losses recognised in the first half of 2009.

## ii Interest rate risk

Interest rate risk arises primarily from Prudential's investments in long-term debt and fixed income securities. Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets as a result of rises or falls in interest rates.

In the US there is interest rate risk across the portfolio. With its large fixed annuity and fixed index annuity books, Jackson has natural offsets for its variable annuity interest rate related risks. Jackson manages fixed annuity interest rate exposure through a combination of interest rate swaps and interest rate options, to protect capital against rates rising quickly, and through the contractual ability to reset crediting rates annually.

In the UK the investment policy for the shareholder-backed annuity business is to match the cash flow from investments with the annuity payments. As a result, assets and liabilities are closely matched by duration. The impact on profit of any residual cash flow mismatching can be adversely affected by changes in interest rates, therefore the mismatching position is regularly monitored.

The exposure to interest rate risk arising from Asia is at modest levels.

## iii Foreign exchange risk

Prudential principally operates in the UK, the US, and in 13 countries in Asia. The geographical diversity of our businesses means that we are inevitably subject to the risk of exchange rate fluctuations. Prudential's international operations in the US and Asia, which represent a significant proportion of our operating profit and shareholders' funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in our consolidated financial statements when results are expressed in pounds sterling.

We do not generally seek to hedge foreign currency revenues, as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, in cases where a surplus arising in an overseas operation supports Group capital or shareholders' interest, this exposure is hedged if it is economically optimal to do so. Currency borrowings, swaps and other derivatives are used to manage exposures.

## ***b Credit risk***

In addition to business unit operational limits on credit risk, we monitor closely our counterparty exposures at Group level, highlighting those that are large or of concern. Where appropriate, we will reduce our exposure, purchase credit protection or make use of collateral arrangements to control our levels of credit risk.

### Debt portfolio

Our debt portfolio on an IFRS basis was £113.3 billion at 30 June 2010. £53.1 billion of these assets backed shareholder business, of which 95 per cent were investment grade, compared to 93 per cent at 30 June 2009. Sovereign debt backing shareholder business represented 16.5 per cent of the portfolio, or £8.75 billion at 30 June 2010. Exposures to sovereign debt have increased since December due mainly to an enlarged position in US Treasuries. Seventy five per cent of this was rated AAA and 93 per cent investment grade. Eurozone sovereign exposures backing shareholder business were £3.6 billion at 30 June 2010, of which 98 per cent were AAA rated. Of the remaining two per cent, the highest exposure was in respect of Italy (£53 million) and Spain (less than £1 million) whilst there was no exposure to Greece, Portugal or Ireland. In addition, sovereign exposure to Thailand is £122 million.

### Asia

Asia's debt portfolio totalled £12.4 billion at 30 June 2010. Of this, approximately 70 per cent was in unit-linked and with-profits funds with minimal shareholders' risk. The remaining 30 per cent is shareholder exposure and is invested predominantly (79 per cent) in investment grade bonds. For Asia, the portfolio has performed very well, and did not experience any default losses in the first half of 2010.

## UK

The UK's debt portfolio on an IFRS basis is £72.1 billion as at 30 June 2010, including £45.9 billion within the UK with-profits fund. Shareholders' risk exposure to the with-profits fund is limited as the solvency is protected by the large inherited estate. Outside the with-profits fund there is £5.6 billion in unit-linked funds where the shareholders' risk is limited, with the remaining £20.5 billion backing the shareholders' annuity business and other non-linked business (of which 79 per cent is rated AAA to A, 17 per cent BBB and 4 per cent non-investment grade).

On a statutory (Pillar 1) basis we have held prudent credit reserves within the UK shareholder annuity funds of £1.7 billion to allow for future credit risk. For Prudential Retirement Income Limited (PRIL) this allowance is set at 67bps at 30 June 2010 (31 December 2009: 71bps). This now represents 39 per cent of the portfolio spread over swaps compared to 41 per cent as at 31 December 2009. No defaults were reported on the debt portfolio held by the UK shareholder backed annuity business in the first half of 2010.

During the first half of 2010 we continued to materially reduce our holdings in subordinated financial debt backing our annuity business, improving the overall credit quality of our bond portfolios. This has resulted in gross losses of £85 million on shareholder-backed business and £37 million on policyholder backed business in the period. On a Pillar I basis these losses have been fully offset by a reduction in long-term default reserves of £85 million shareholder/£31 million policyholder that arose as a result of the improvement in the quality of our remaining bond portfolios and a further £6 million policyholder release of short-term default reserves which were allocated to the assets sold. On an IFRS basis, the gross costs less the reduction in long-term and short-term default reserves resulted in a small overall pre-tax loss to the policyholders (£4 million) and had no impact on IFRS pre-tax shareholder operating profit.

## US

The most significant area of exposure to credit risk for the shareholders is Jackson in the US. At 30 June 2010 Jackson's fixed income portfolio totalling £27.4 billion, comprised £20.5 billion corporate and government debt, £3.3 billion of Residential Mortgage Backed Securities (RMBS), £2.5 billion of Commercial Mortgage Backed Securities (CMBS) and £1.1 billion of other instruments.

The US corporate and government debt portfolio of £20.5 billion is comprised of £17.8 billion of corporate debt and £2.7 billion of government debt. Of the £17.8 billion of corporate debt 95 per cent is investment grade. Concentration risk within the corporate debt portfolio is low, with the top ten holdings accounting for approximately eight per cent of the portfolio. The non-investment grade corporate debt portfolio is also well diversified with an average holding of £8 million. Our largest sector exposures in the investment grade corporate debt portfolio are Utilities and Energy at 16 per cent and 15 per cent respectively. We actively manage the portfolio and will sell exposures as events dictate.

Within the RMBS portfolio of £3.3 billion, the agency guaranteed portion is 57 per cent. Another 21 per cent of the portfolio is non-agency prime and Alt-A investments with pre-2006/2007 vintages, where experience has been much more positive than later vintages. Our exposure to the 2006/2007 vintages totals £429 million of which £412 million is invested in the senior part of the capital structure, thereby significantly reducing the risk of defaults and the magnitude of loss if a shortfall does occur. The actual exposure to non-senior 2006/2007 Prime and Alt-A RMBS is only £17 million. The total RMBS portfolio has an average fair value price of 87 cents on the dollar.

The CMBS £2.5 billion portfolio is performing strongly, with 33 per cent of the portfolio rated AAA and less than one per cent rated below investment grade. The entire portfolio has an average credit enhancement level of 30 per cent. This level provides significant protection, since it means the bond has to incur a 30 per cent loss, net of recoveries, before we are at risk.

In Jackson, total amounts charged to profits relating to debt securities were £ 161 million (2009: £366 million). This is net of recoveries/reversals recognised in the year of £3 million (2009: £2 million).

In the first half of 2010, Jackson's total defaults were nil (2009: less than one million). In addition, as part of our active management of the book, we incurred losses net of recoveries and reversals of £97 million (2009: £42 million) on the sale of impaired bonds.

IFRS write-downs excluding defaults for the half year were £64 million compared to £324 million in the equivalent period of 2009. Of this amount £39 million (2009: £239 million) was in respect of RMBS securities.

The impairment process reflects a rigorous review of every single bond and security in our portfolio. Our accounting policy requires us to book full mark-to-market losses on impaired securities through our income statement. However we would expect only a proportion of these losses eventually to turn into defaults, and some of the impaired securities to recover in price over time.

#### Unrealised gains and losses on debt securities in the US

Jackson's net unrealised gains from debt securities has steadily improved from negative £2,897 million at 31 December 2008 to positive £4 million at 31 December 2009 to £1.2 billion at 30 June 2010. The gross unrealised loss position moved from £966 million at 31 December 2009 to £521 million at 30 June 2010. Gross unrealised losses on securities priced at less than 80 per cent of face value totalled £340 million at 30 June 2010 compared to £594 million at 31 December 2009.

#### Asset management

The debt portfolio of the Group's asset management operations of £1.5 billion as at 30 June 2010 is principally related to Prudential Capital operations. Of this amount substantially all were rated AAA to A- by S&P or AAA by Moody's.

#### Loans

Of the total Group loans of £9.6 billion at 30 June 2010, £7.5 billion are held by shareholder-backed operations comprised of £5.0 billion commercial mortgage loans and £2.5 billion of other loans.

Of this total held by shareholder-backed operations, the Asian insurance operations held £0.5 billion of other loans, the majority of which are commercial loans held by the Malaysian operation that are rated investment grade by two local rating agencies. The US insurance operations held £4.5 billion of loans, comprising £3.9 billion of commercial mortgage loans, all of which are collateralised by properties, and £0.6 billion of policy loans. The US commercial mortgage loan portfolio does not include any single-family residential mortgage loans and therefore is not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The UK insurance operations held £1.1 billion of loans, the majority of which are mortgage loans collateralised by properties.

The balance of the total shareholder loans amounts to £1.4 billion and relates to bridging loan finance managed by Prudential Capital.

#### *c Insurance risk*

The processes of determining the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. In common with other industry players, the profitability of our businesses depends on a mix of factors including mortality and morbidity trends, persistency, investment performance, unit cost of administration and new business acquisition expenses. We continue to conduct rigorous research into longevity risk using data from our substantial annuitant portfolio. Prudential's persistency assumptions reflect recent experience for each relevant line of business, and any expectations of future persistency. Where appropriate, allowance is also made for the relationship – either assumed or historically observed – between persistency and investment returns, and for the resulting additional risk.

#### *d Liquidity risk*

The holding company has significant internal sources of liquidity which are sufficient to meet all of our expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.2 billion of undrawn committed facilities, including £1.7 billion of syndicated and bilateral committed banking facilities, expiring between 2011 and 2013, and an annually renewable £500 million committed securities lending facility. In addition the Group has access to liquidity via the debt capital markets. Recent issues include two hybrid instruments for approximately £850 million in 2009 and a £250 million senior 3-year MTN in 2010. Prudential also has in place an unlimited commercial paper programme and has maintained a consistent presence as an issuer in this market for the last 10 years. Liquidity uses and sources have been assessed at a business unit level under base case and stressed assumptions. The liquidity resources available and the subsequent Liquidity Coverage Ratio (LCR) have been assessed to be sufficient under both sets of assumptions.

## **2 Non-financial risk**

Prudential is exposed to operational, business environment and strategic risk in the course of running its businesses. We process a large number of complex transactions across numerous and diverse products, and are subject to a number of different legal and regulatory, including tax regimes. We also have a significant number of third-party relationships that are important to the distribution and processing of our products, both as market counterparties and as business partners.

We use the qualitative and quantitative analysis of operational risk exposures material to the Group to support business decisions, to inform overall levels of capital held and to assess the adequacy of the corporate insurance programme.

## **3 Risk factors and contingencies**

Our disclosures covering risk factors can be found at the end of this document. Note AC of the IFRS basis condensed consolidated financial statements gives an update on the position for contingencies of the Group since those published in the 2009 Annual Report.

## **Capital management**

### ***Regulatory capital (IGD)***

Prudential is subject to the capital adequacy requirements of the European Union (EU) Insurance Groups Directive (IGD) as implemented by the Financial Services Authority (FSA) in the UK. The IGD capital adequacy requirements involves aggregating surplus capital held in our regulated subsidiaries, from which Group borrowings, except those subordinated debt issues that qualify as capital, are deducted. No credit for the benefit of diversification is permitted under this approach.

Our capital position remains strong. We have continued to place emphasis on maintaining the Group's financial strength through optimising the balance between writing profitable new business, conserving capital and generating cash. We estimate that our Insurance Groups Directive (IGD) capital surplus was £3.4 billion at 30 June 2010 (before taking into account the 2010 interim dividend), covering our capital requirements 2.7 times. This compares to a capital surplus of £3.4 billion at the end of 2009 (before taking into account the 2009 second interim dividend).

The movements during 2010 mainly comprise:

- Net capital generation mainly through operating earnings (in-force releases less investment in new business) of £0.8 billion;
- Foreign exchange movements of £0.2 billion;

Offset by:

- Final 2009 dividends, net of scrip, of £0.3 billion;
- Inadmissible assets arising on the purchase of UOB's life insurance subsidiary in Singapore of £0.2 billion;
- Impact of costs incurred in relation to the terminated AIA acquisition of £0.3 billion; and
- External financing costs and other central costs of £0.2 billion.

We continue to have further options available to us to manage available and required capital. These could take the form of increasing available capital (for example, through financial reinsurance) or reducing required capital (for example, through the mix and level of new business) and the use of other risk mitigation measures such as hedging and reinsurance.

In addition to our strong capital position, on a statutory (Pillar 1) basis the total credit reserve for the UK shareholder annuity funds also protects our capital position in excess of the IGD surplus. This credit reserve as at 30 June 2010 was £1.7 billion. This represents 39 per cent of the portfolio spread over swaps, compared to the 41 per cent as at 31 December 2009.

### ***Stress Testing***

As at 30 June 2010 stress testing of our IGD capital position to various events has the following results:

- An instantaneous 20 per cent fall in equity markets from 30 June 2010 levels would reduce the IGD surplus by £250 million;
- A 40 per cent fall in equity markets (comprising an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four week period) would reduce the IGD surplus by £650 million;
- A 150bps reduction (subject to a floor of zero) in interest rates would reduce the IGD surplus by £350 million;
- Credit defaults of ten times the expected level would reduce IGD surplus by £550 million.

We believe that the results of these stress tests, together with our Group's strong underlying earnings capacity, our established hedging programmes and our additional areas of financial flexibility, demonstrate that we are in a position to withstand significant deterioration in market conditions.

We also use an economic capital assessment to monitor our capital requirements across the Group, allowing for realistic diversification benefits and continue to maintain a strong position. This assessment provides valuable insights into our risk profile.



### ***Solvency II***

The European Union (EU) is developing a new solvency framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new solvency framework, was formally approved by the Economic and Financial Affairs Council in November 2009. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

Having assessed the high-level requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is being coordinated by Group Head Office to achieve consistency in the understanding and application of the requirements.

Over the coming months we will be progressing our implementation plans further and remaining in regular contact with the FSA as we prepare for the initial stage of the approval process for the internal model.

## **CORPORATE GOVERNANCE**

### **Hong Kong listing obligations**

The directors confirm that from the date of listing of 25 May 2010, the Company has complied with the code provisions of Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange. The directors also confirm that the half year results have been reviewed by the Group Audit Committee.

## BUSINESS UNIT REVIEW

### Insurance operations

#### Asia

##### Market overview

During the first half of 2010, Asian equity markets were adversely impacted by concerns over the global economy and the likelihood of a 'double-dip' recession. However there are few signs of any aggressive downgrading of growth forecasts in Asia as markets consider that the Asia growth story is far less dependent on the US than it has been in the past. The expectations for China's growth rates appear to suggest they will moderate rather than stall and hence this will not destabilise this region. Rapid inflation in India is a concern and the Indian central bank has responded by increasing interest rates four times so far this year.

The region's life insurance sector has continued to recover well from the 2008/2009 downturn. During the first quarter 2010 most territories reported double digit growth in new business premiums compared to the same period in 2009. Local regulatory responses to the economic turmoil are in line with our expectations and we are seeing increased emphasis on measures to strengthen the industry. For example, in Korea the new Insurance Act includes new measures to protect customers from aggressive selling techniques and in Singapore MAS have proposed that insurers establish risk committees at the board level comprising a majority of non executive directors. In India, the IRDA has prepared draft guidelines for the IPO of insurance companies and these are expected to be discussed with the industry and Stock Exchange over the coming months.

##### Strategy overview

Prudential's strategy in Asia remains firmly focussed on expanding our distribution reach via tied agency and partnerships together with continuing to improve distributors' productivity. Our products provide financial solutions to customers that meet their long term savings and protection needs while balancing capital efficiency and delivering excellent returns to shareholders. Although this strategy is designed to deliver growth rates that exceed the market over the long term, we do not pursue headline growth for its own sake and so will not offer products that we believe have a high risk of adversely impacting shareholder value.

We are already successfully operating in the region's highest value markets however we do continue to keep under review opportunities to expand into new territories.

##### Financial performance

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales (excluding Japan)	713	524	36	555	28
NBP (excluding Japan)	396	286	38	303	31
NBP margin (excluding Japan) (% APE)	56%	55%		55%	
NBP margin (% PVNBP)	11.9%	11.2%		11.3%	
Total EEV operating profit*	636	401	59	418	52
Total IFRS operating profit*	262	212	24	224	17

\*Operating profit from long-term operations excluding asset management operations, development costs and Asia regional head office expenses and including Japan.

During the first half of 2010, Prudential Asia delivered excellent new business growth, continuing the trend seen in the first quarter this year. This demonstrates the continued strength of our businesses in Asia and we expect this strength to be reflected in an outperformance over market average growth in most countries. At £713 million, new business APE for the first half of the year is at a record high, exceeding the previous record of first half 2008 (£620

million) and 36 per cent ahead of the same period last year. This growth is broadly based with all operations, except Korea, having delivered double digit growth rates.

Agency remained the dominant distribution channel during the first half of 2010 generating 63 per cent of total APE (2009: 62 per cent) and Prudential's success in managing agency is reflected by average agent numbers (ex India) growing by 15 per cent to 153,000 agents compared to the first half last year and average APE per agent increasing by 11 per cent. Bank distribution has also performed very well with APE up 42 per cent over the same period last year. Prudential's new partnership with UOB has been particularly successful generating APE of £11 million already in Singapore and Thailand; Indonesia's start has been slower due to regulatory approvals for the partnership with UOB needing to be finalised.

Prudential's ongoing focus on higher margin regular premium business is reflected by its proportion of total APE remaining at 94 per cent, as it was in the first half of 2009. The proportion of linked business in the product mix for the first half this year is 42 per cent, marginally higher than 41 per cent for the same period last year. Although sales of health and protection products have increased by 31 per cent to £184 million APE, their proportion of the sales mix has declined marginally, from 27 per cent to 26 per cent reflecting their lower premium size relative to the savings and protection components. This consistency in delivering our product strategy is reflected by the stability of the EEV new business profit margins that at 56 per cent are marginally up on the same period last year (2009: 55 per cent). New business profits of £396 million are up 38 per cent on the same period last year demonstrating Prudential's success in delivering top line growth and, importantly, maintaining profitability discipline.

EEV operating profits of £636 million are up a very strong 59 per cent on the first half 2009 with significant drivers being the increased new business profits and increasing size of the in-force book and related profit. Following the adjustments made to persistency assumptions last year, this half year assumption changes are small at negative £14 million. Experience variances at negative £(45) million are 25 per cent lower than the same period last year. The £45 million includes adverse persistency variances of negative £(41) million and other experience variances, including expenses, of negative £31 million being offset by positive claims variances of £28 million. Negative expense variances arise in the newer operations as these continue to build scale. Given the scale of EEV shareholder funds of the long-term business at £6.7 billion, these experience variances and assumption changes remain small.

IFRS operating profits of £262 million are up 24 per cent over the same period last year. Excluding the exceptional release of RBC related reserves in Malaysia last year, operating profits are up a significant 76 per cent. The largest contributor to IFRS profits for the first half this year was Indonesia, which grew by 67 per cent to £70 million.

Free surplus new business strain excluding Japan was £123 million and total free surplus generation of £198 million is up 90 per cent on the same period last year. In total the Asia Life operations remitted a net £81 million of cash to Group during the first half compared to £46 million last year, an increase of 76 per cent.

We continue to manage our investment in new business, focusing on value creation. New business written in the period has an average internal rate of return (IRR) in excess of 20 per cent and an average pay back period of three years.

Looking at developments in each of our major markets:

### *China*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	27	21	29	21	29

In **China**, Prudential's share of new business volumes for the first half of 2010, reflecting our 50 per cent ownership, is £27 million up 29 per cent on 2009 and represents our highest ever first half. CITIC Prudential remains one of the leading foreign joint ventures in China and operates in 31 cities.

CITIC Prudential is growing multi channel distribution in China; in the first half the mix of APE by distribution channel was approximately 50:50 agency and bancassurance. Competition for agents in China is high but although our number declined by 20 per cent in the first half 2010 compared to the same period last year our focus on quality and productivity management is demonstrated by an increase of 48 per cent in average APE per agent. We work with a number of banks in China but the largest contributor to APE is CITIC Bank where we have increased by 19 per cent the number of branches we operate from 294 to a total of 350.

New business profit margins in China, at 44 per cent for the half year, are only marginally lower than last year (2009: 45 per cent).

### *Hong Kong*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	130	95	37	92	41

**Hong Kong** continues to perform very well with growth rates closer to an emerging market rather than those which might be expected from one of Asia's more mature economies. Prudential is well placed in Hong Kong as the market leading producer of agency business and the exclusive partner in a very successful bancassurance distribution agreement with Standard Chartered Bank.

First half 2010 APE of £130 million is up 37 per cent over the same period in 2009 with both agency and bank distribution performing very well. Average agent numbers for the first half 2010 were up 15 per cent and the average APE per agent was up 29 per cent. In the bank channel Financial Service Consultant headcount has remained broadly in line with last year with increased production being driven by higher conversion rates and higher average case sizes. Production from bank staff has increased significantly over last year.

New business profit margins in Hong Kong remain very strong at 72 per cent with the slight decline from 76 per cent for the first half last year resulting from a lower proportion of protection products in the mix as average premiums for the savings element of policies have increased.

### *India*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	119	76	57	80	49

In **India**, ICICI-Prudential has seen resurgence in new business volumes during the first half following on from the market related decline in 2009. The product mix in India continues to be predominately unit-linked based. The regulatory changes effective from this year designed to ensure customers treat investment linked insurance products as longer term financial solutions did not affect our performance because this has been the way we have consistently positioned these products.

Agency remains our dominant distribution channel in India and although the average number of agents has declined by 13 per cent to 227,000 agents as we actively manage out non performers, average APE per agent has increased by 55 per cent reflecting the success of productivity related initiatives. We continue to work with a number of bank partners in India that generated 27 per cent of total APE and we are also successfully expanding into the broker channel with APE generated from this channel up 200 per cent over the same period last year and contributing 20 per cent of total APE.

New business profit margins in India at 20 per cent for the first half have increased by one percentage point over the same period last year.

## Indonesia

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	129	83	55	98	32

Growth in **Indonesia** continues at a fast pace with £129 million of new business APE up 55 per cent on the first half of 2009. Agency continues to be the predominant distribution channel and our successful agency management system has driven an 18 per cent increase in average agency numbers to 82,000 for the half year 2010 coupled with a 10 per cent increase in the average APE generated per agent. These results demonstrate that regulatory changes implemented this year to tighten agency licensing requirements in the industry have not impacted our business.

New business in Indonesia is mostly protection business and unit-linked, of which within unit-linked 22 per cent is takaful. New business profit margins in Indonesia remain very strong at 71 per cent, up from 61 per cent for the first half of last year.

## Korea

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	45	66	(32)	75	(40)

As seen during 2009, the market in **Korea** remains very challenging and a key contributing factor to the 32 per cent decline in new business volumes over the first half 2009 to £45 million. The performance in the first half of 2010 continues to be informed by our unwillingness to compete in the low margin, high capital guaranteed products sector. Our average agent numbers in Korea have declined by 39 per cent compared to the first half 2009, but we continue to remain focussed on quality as reflected by a 11 per cent increase in average APE per agent. Although generating a small proportion of total APE (nine per cent for first half 2010), the bank channel had a stronger first half with APE up more than double over prior year with Citibank and SC First Bank generating the majority of the APE.

Persistency in Korea is on an improving trend, particularly during the first year of policies' lives, which is significantly higher than the equivalent cohort last year.

New business profit margins in Korea at 45 per cent have improved significantly over the 36 per cent reported last year as the proportion of linked business in the mix has increased from 71 per cent to 80 per cent.

## Malaysia

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	77	52	48	56	38

**Malaysia** delivered an excellent first half with new business APE up 48 per cent over the first half last year. Agency is Prudential's major distribution channel in Malaysia and the success of our agency management is evidenced by average agent numbers being up 12 per cent over the same period last year and average APE per agent being up 25 per cent. Malaysia remains an exemplary operation in terms of packaging higher margin protection components with core savings policies and in 2010 we also launched a very popular new par product that generated 20 per cent of new business APE during the period.

## Singapore

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	75	52	44	54	39

**Singapore** also had an exceptionally strong first half in 2010, with new business volumes up 44 per cent to £75 million. Agency generated 73 per cent of APE during the first half and although average agent numbers only increased by a modest four per cent, productivity initiatives boosted average APE per agent by 31 per cent. APE from partnership distribution increased by 66 per cent, supported by the new relationship with UOB bank that got underway in the first quarter and is exceeding our performance expectations. To date sales from UOB have been predominantly from bank staff as we are early in the process of embedding our Financial Service Consultants.

During the first half protection business still remains popular in Singapore and represented 29 per cent of the total APE, and the proportion of linked business increased to 25 per cent, up from 19 per cent for the same period last year.

## Taiwan

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	70	51	37	52	35

Following our exit from the agency channel in 2009, **Taiwan** is now successfully focussed on bank distribution principally with partners E.Sun Bank and Standard Chartered Bank. New business volumes of £70 million for the first half 2010 are up 37 per cent on the same period last year. E.Sun Bank has delivered a particularly material increase in activity from both the Financial Service Consultants and bank staff.

We have increased the proportion of protection business in the product mix from 12 per cent to 16 per cent and this has supported an increase in average new business profit margins of four percentage points from 15 per cent to 19 per cent.

## Others – Philippines, Thailand and Vietnam

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	41	27	52	27	52

In the first half **Vietnam** delivered a solid result with APE sales up 20 per cent on the prior period on the reported basis. Both **Philippines** and **Thailand** have had record first halves with growth of 150 per cent and 63 per cent respectively. In the Philippines agent numbers have increased by 30 per cent and a new bancassurance initiative with HSBC contributed 17 per cent of total APE in the first half. In Thailand our new relationship with UOB got off to a very encouraging start and generated 38 per cent of new business.

## Japan

We announced at the start of 2010 that PCA Life **Japan** was suspending writing new business sales with effect from 15 February 2010. Sales for Japan in the first half of 2010 amounted to £7 million (first half 2009: £29 million). In order to reflect the results of our ongoing Asian operations, APE sales and NBP metrics included in this announcement exclude the contribution from Japan.

## US operations

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	<b>560</b>	392	43	383	46
NBP	<b>361</b>	292	24	286	26
NBP margin (% APE)	<b>64%</b>	74%		74%	
NBP margin (% PVNBP)	<b>6.5%</b>	7.5%		7.5%	
Total EEV operating profit*	<b>667</b>	501	33	490	36
Total IFRS operating profit*	<b>450</b>	217	107	212	112

\*Based on longer-term investment returns excludes broker-dealer, fund management and Curian

## Introduction

The United States is the world's largest retirement savings market. Each year as more of the 78 million baby boomers<sup>1</sup> reach retirement age, additional amounts of retirement assets will shift from asset accumulation to income distribution. There are already \$2 trillion of assets generating retirement income in the US - and this amount is forecast to rise to some \$7.3 trillion by 2029<sup>2</sup>.

During the first half of 2010, the US financial services industry continued to face many challenges. The continued recovery witnessed in the first quarter - the S&P 500 index increased five per cent, interest rates remained relatively steady and AA corporate spreads and volatility declined somewhat from year-end 2009 levels – was reversed in the second quarter – the S&P 500 index ended the first half of the year down 7.6 per cent, 10-year Treasury rates dropped below three per cent, swap rates declined to approximate historic lows, AA corporate spreads increased slightly and volatility increased to levels more consistent with the end of the first half of 2009.

These unstable market conditions continue to provide a competitive advantage to companies with strong financial strength ratings and a relatively consistent product set. Companies that were hardest hit by the market disruption over the past 24 months are still struggling to regain market share as customers are increasingly seeking product providers that offer consistency, stability and financial strength. Jackson has continued to benefit significantly from this flight to quality. Through its financial stability and innovative products that provide clear value to the consumer, Jackson has established a reputation as a high-quality and reliable business partner, with sales increasing as more advisers have recognised the benefits of working with Jackson.

Jackson's strategy remains focused on increasing volumes in variable annuities whilst managing fixed annuity sales in line with the goal of capital preservation. There were no institutional sales during the first half of 2010, as we directed available capital to support higher-margin variable annuity sales.

## Financial performance

Jackson delivered total APE sales of £560 million in the first half of 2010, representing a 43 per cent increase over the same period of 2009. APE retail sales in the first half of 2010 were also £560 million, the highest half-year total in the company's history. This achievement continues to demonstrate the resilience of Jackson's business model, as well as high-quality products, exceptional wholesaling support and consistency demonstrated throughout the economic downturn.

In light of continued volatility in US equity markets, and historically low interest rates, customers are increasingly seeking to mitigate equity risk while receiving an acceptable return through the purchase of fixed index annuities and variable annuities with guaranteed living benefits. Jackson is a beneficiary of this trend.

<sup>1</sup> Source: US Census Bureau

<sup>2</sup> Source: Tiburon Strategic Advisers, LLC



Variable annuity APE sales of £447 million through June 2010 were up 77 per cent from the same period of 2009, with second quarter APE sales of £246 million, up 22 per cent on the first quarter, despite an environment in which equity markets declined 13 per cent in May and June. In the first quarter of 2010, Jackson ranked fourth in new variable annuity sales in the US with a market share of 10 per cent, up from eighth and a market share of five per cent in the first quarter of 2009<sup>1</sup>. With significant sales increases and continued low surrender rates, Jackson also ranked first in variable annuity net flows in the first quarter of 2010, up from fifth in the first quarter of 2009<sup>2</sup>.

Fixed annuity APE sales of £42 million were down 40 per cent from the prior year, as consumer demand for the products fell due to the low interest rate environment. Jackson's new business opportunities were balanced with the goals of capital and cash conservation. Jackson ranked ninth in sales of traditional deferred fixed annuities during the first quarter of 2010, with a market share of three per cent<sup>3</sup>.

Fixed index annuity (FIA) APE sales of £60 million in the first half of 2010 were up three per cent over the first half of 2009. Industry FIA sales have benefited from an increase in customer demand for products with guaranteed rates of return, coupled with additional upside potential linked to stock market index performance. Additionally, Jackson's FIA sales have benefited from the company's strong financial strength ratings and disruptions among some of the top FIA sellers. Jackson ranked fourth in sales of fixed index annuities during the first quarter of 2010, with a market share of 6.9 per cent, up from sixth and a market share of five per cent in the first quarter of 2009<sup>4</sup>.

Retail annuity net flows increased 93 per cent, reflecting the benefit of record sales and continued low levels of surrender activity.

Jackson has maintained the same financial strength ratings for more than seven years and, during 2009 and 2010, all four of the major rating agencies affirmed Jackson's financial strength ratings.

Jackson achieved extraordinary EEV new business margins in 2009, partially as a result of our ability to take advantage of extreme dislocation in the corporate bond market. While the recovery in the corporate bond market has led to somewhat lower EEV new business margins due to lower spreads in 2010, we continue to write new business at internal rates of return in excess of 20 per cent, with a payback period of two years.

The abnormally high spread assumptions in 2009 included a provision that crediting rates and spreads would normalise in the future.

EEV basis new business profits of £361 million were up 24 per cent on the first half of 2009, reflecting a 43 per cent increase in APE sales offset somewhat by lower new business margins. Total new business margin was 64 per cent, compared to 74 per cent achieved in the first half of 2009.

The variable annuity new business margin of 71 per cent in the first half of 2010 held steady with the same period in 2009, as lower spreads on the guaranteed funds were offset by an increase in the take-up rate on guaranteed benefits – particularly guaranteed minimum withdrawal benefits.

The fixed index annuity new business margin decreased from 85 per cent in the first half of 2009 to 45 per cent in the first half of 2010 due to decreased spread assumptions and an increase in the discount rate for short-term credit risk. These factors also caused the fixed annuity new business margin to normalise from 77 per cent to 31 per cent. For both products, the spread assumptions decreased due primarily to abnormally high investment yields during the first half of 2009.

Total EEV basis operating profit for the long-term business in the first half of 2010 was £667 million, compared to £501 million in the first half of 2009. In-force EEV profits of £306 million for the first half of 2010 were 46 per cent higher than the first half 2009 profit of £209 million. Experience variances and other items were £42 million higher in the first half of 2010 due primarily to favourable spread and persistency variances that were partially offset by lower expense and mortality variances.

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<sup>1</sup> Source: VARDS

<sup>2</sup> Source: Morning Star

<sup>3</sup> Source: LIMRA

<sup>4</sup> Source: The Advantage Group

In the first half of 2010, Jackson invested £179 million of free surplus to write £560 million of new business, which equated on average to £32 million per £100 million of APE sales (2009: £43 million). The reduction in capital consumption year-on-year was caused predominantly by the differing business mix in the first half of 2010, when Jackson wrote a higher proportion of variable annuity business while maintaining a very disciplined approach to fixed and fixed index annuity pricing.

IFRS pre-tax operating profit for the long-term business<sup>1</sup> was £450 million in the first half of 2010, more than double the £217 million in the first half of 2009. This increase was primarily due to higher separate account fee income as the equity markets rallied throughout the second half of 2009 and first quarter of 2010, higher spread income and a £123 million benefit from net equity hedging gains. Jackson hedges the product economics rather than the accounting results and higher hedge gains were primarily a result of market movements during the first half of 2010 (S&P 500 down 7.6 per cent in first half 2010, up 1.8 per cent in first half 2009) and the accounting differences that arise as the liabilities for certain guaranteed minimum death and withdrawal benefits are not marked to fair value similarly to the hedging instrument. Hedging results also benefited from Jackson's separate accounts outperforming the overall market. Jackson's separate accounts historically outperform in down markets and lag somewhat in rising markets given the mix of assets in our underlying portfolios.

At 30 June 2010, Jackson had £24 billion in separate account assets. Separate account assets averaged £9 billion higher than during the same period of 2009, reflecting the impact of sales and the improved market performance during the second half of 2009. This increase, combined with the increasing take-up rate on VA guaranteed benefits, resulted in VA fee income of £342 million during the first half of 2010, up 68 per cent over the £204 million during the first half of 2009.

With the improvement in the bond and equity markets throughout the second half of 2009 and first half of 2010, and active management of the investment portfolio to reduce certain investment risks in 2010, Jackson had net realised gains of £8 million in the first half of 2010 compared to net realised losses of £291 million in the first half of 2009. Jackson incurred losses, net of recoveries and reversals, on credit related sales of bonds of £97 million (2009: £42 million). Write downs were £64 million (£324 million in first half of 2009), including £39 million on RMBS and £25 million on ABS. More than offsetting these losses were interest related gains of £169 million (2009: £75 million), primarily due to sales of lower rated CMBS and corporate debt.

Gross unrealised losses improved from £966 million at 31 December 2009 to £521 million at 30 June 2010. The net unrealised gain position has also improved significantly, from £4 million at 31 December 2009 to £1,171 million at 30 June 2010 due primarily to a 91bp decline in the US Treasury rates offset somewhat by slightly higher AA corporate spreads.

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<sup>1</sup> Jackson IFRS operating profit of £450 million includes £123 million of net equity hedging gains (2009: £23 million losses) representing the movement in fair value of free standing derivatives included in operating profit and the movement in the accounting value of guarantees in Jackson's variable and fixed index annuity products, a significant proportion of which are not fair valued, net of related DAC. Excluding these amounts, which are variable in nature, Jackson IFRS operating profit increased by 36 per cent as compared to half year 2009.

## *UK operations*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
APE sales	382	376	2	376	2
NBP	135	122	11	122	11
NBP margin (% APE)	35%	32%		32%	
NBP margin (% PVNBP)	4.4%	4.0%		4.0%	
Total EEV operating profit	472	433	9	433	9
Total IFRS operating profit	330	330	-	330	-

Prudential UK continues to focus on balancing writing new business with sustainable cash generation and capital preservation. By competing selectively in the UK's retirement savings and income markets, it has successfully generated attractive returns on capital employed.

The business remains a market leader in both individual annuities and with-profits and has a unique combination of competitive advantages including longevity experience, multi-asset investment capabilities, strong brand and financial strength.

### **Financial performance**

Total APE sales for the first half of 2010 of £382 million were two per cent up on 2009. This performance is entirely consistent with Prudential UK's strategy of not pursuing top-line sales growth as a business objective but instead deploying capital to opportunities that play to the core strengths of the business, which has enabled it to continue writing profitable new business while maintaining margins.

Prudential UK writes with-profits annuity, with-profits bond and with-profits corporate pensions business in its life fund, with other products backed by shareholder capital. The weighted average post-tax IRR on the shareholder capital allocated to new business growth in Prudential UK was in excess of 15 per cent.

Prudential UK has a strong individual annuity business, built on a robust profit flow from its internal vestings pipeline from maturing individual and corporate pension policies. This strong flow of business is supplemented by strategic partnerships with third parties where Prudential is the recommended annuity provider for customers vesting their pensions at retirement.

During the first half of 2010, Prudential UK continued to actively manage sales volumes to control capital consumption. Total individual annuity sales of APE £112 million were two per cent lower than the first half of 2009. With-profits sales for the half-year were 22 per cent of total annuity sales, compared with 14 per cent for the corresponding period last year, due to the success of the innovative new Income Choice Annuity launched in March 2009.

Internal vestings were 12 per cent down on 2009, principally due to lower asset values in the first quarter and the proportion of customers vesting with Prudential UK being lower than in the first half of 2009.

Onshore bond sales of APE £69 million were down nine per cent, including with-profits bond sales of APE £60 million which were 15 per cent down on the first half of 2009. PruFund made up 77 per cent of total with-profits bonds, with sales continuing to be driven by customer demand for products offering a smoothed investment return and optional guarantees. Unit-linked bond sales at APE £9 million were £4 million (71 per cent) above the first half of 2009, helped by the launch of Pru Dynamic funds in January 2010.

Within corporate pensions, Prudential UK continues to focus principally on the opportunities from Additional Voluntary Contribution (AVC) arrangements to the public sector as well as opportunities from the substantial existing Defined Contribution book of business. Prudential administers corporate pensions for over 600,000 members. Prudential UK has been the sole AVC provider to Teachers Pensions for 20 years and provides AVCs to 65 of the 99 Local Government Authorities in England and Wales. For the first half of 2010, corporate pension sales of APE £122 million were six per cent above 2009 and growth into existing schemes has remained healthy.

Sales of other products at APE £78 million were 11 per cent higher than in the first half of 2009. Individual pension sales of £41 million (including income drawdown) were 12 per cent up on the first half of 2009. Sales of the Flexible Retirement Plan, Prudential UK's individual pension product with customer-agreed remuneration, grew by 20 per cent to £12 million. Sales have been helped by PruFund Cautious, launched in the fourth quarter of 2009, and the new Pru Dynamic portfolio funds launched in January 2010, which together made up 29 per cent of individual pension sales. Sales of the income drawdown product of APE £7 million were up 41 per cent on the same period last year, reflecting Prudential UK's strong proposition with the option of guarantees either through PruFund or traditional with-profits.

Prudential UK announced its exit from the equity release market in the last quarter of 2009 due to the capital-intensive nature of the product and long pay-back period. Sales of APE £5 million were broadly in line with 2009, driven from the pipeline of business in progress and additional drawdowns on the in-force book. Existing customers are not impacted in any way by the closure to new business.

The PruHealth joint venture uses the Prudential brand and Discovery's expertise to build branded distribution in Health and Protection. In August 2010, Discovery announced the completion of the acquisition of Standard Life Healthcare and its combination with the PruHealth business. This acquisition was fully funded by Discovery and as a result, Prudential reduced its shareholding in the combined business from 50 per cent to 25 per cent with effect from 1 August 2010, the date of the acquisition. PruHealth currently has 220,000 lives insured, an increase of five per cent over the last year. PruProtect sales at APE £11 million were £5 million (98 per cent) up on the first half of 2009, supported by the launch of the "Essential" Plan in November 2009.

Prudential UK has maintained a strict focus on value in the bulk annuity and back-book markets. In the first half of 2010, Prudential UK did not write any new business in this market reflecting its disciplined approach of only participating in transactions that meet strict return on capital requirements.

EEV new business profit increased by 11 per cent to £135 million in the first half of 2010 from £122 million in 2009, reflecting an increase in new business margin to 35 per cent from 32 per cent. This was primarily due to increased margins on with-profits bond business together with strong margins achieved on shareholder-backed annuity business.

EEV basis total operating profit based on longer-term investment returns of £472 million (including £23 million of General Insurance commission), was up nine per cent compared with the first half of 2009. This was mainly the result of the in-force operating profit (at £314 million) being up 11 per cent on the first half of 2009. The increase in in-force operating profit was principally within shareholder-backed annuity business.

Prudential UK continues to manage actively the retention of the in-force book. During the first half of 2010, experience at an aggregate level has been in line with long-term assumptions.

The average free surplus undiscounted payback period for business written in the first half of 2010 was five years.

Total IFRS operating profit remained stable in 2010 at £330 million. Non-long term business IFRS profit reflected a profit of £23 million from general insurance commission, 15 per cent below 2009 due to lower in-force policy numbers as the business matures.

Prudential UK has continued to make good progress against its cost reduction plans. As previously announced, the first phase of the programme delivered savings of £115 million per annum, with a further £80 million per annum expected to be delivered by the end of 2010. By 30 June 2010, the total annual cost savings target of £195 million per annum savings had been delivered, which was earlier than originally planned.

### **Financial strength of the UK Long-term Fund**

On a realistic valuation basis, with liabilities recorded on a market consistent basis, the free assets were valued at approximately £5.9 billion at 30 June 2010, before a deduction for the risk capital margin. The value of the shareholder's interest in future transfers from the UK with-profits fund is estimated at £2.2 billion. The financial strength of PAC is rated AA (negative watch) by Standard & Poor's, Aa2 (negative outlook) by Moody's and AA+ (negative watch) by Fitch Ratings.

Despite continued volatility in financial markets, the with-profits sub-fund performed relatively strongly with the with-profits life fund achieving an 2.6 per cent investment return in the first half of the year.

### **Inherited estate of Prudential Assurance**

The assets of the main with-profits fund within the long-term insurance fund of PAC are comprised of the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

## Asset Management

The Group's asset management businesses provide value to the insurance businesses within the Group by delivering sustained superior performance. They are also important profit generators in their own right, having low capital requirements and generating significant cash flow for the Group.

We believe that our asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit steams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths. However they continue to work together by managing money for each other with clear regional specialism, distributing each other's products and sharing knowledge and expertise, such as credit research.

Each business and its performance in 2010 is summarised below.

### M&G

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Net investment flows	<b>4,674</b>	8,625	(46)	8,625	(46)
Revenue	<b>298</b>	195	53	195	53
Other income	<b>1</b>	7	(86)	7	(86)
Staff costs	<b>(122)</b>	(85)	44	(85)	44
Other costs	<b>(58)</b>	(42)	38	(42)	38
Underlying profit before performance-related fees	<b>119</b>	75	59	75	59
Performance-related fees	<b>3</b>	-		-	
Operating profit from asset management operations	<b>122</b>	75	63	75	63
Operating profit from Prudential Capital	<b>21</b>	27	(22)	27	(22)
Total IFRS operating profit	<b>143</b>	102	40	102	40
Funds under management	<b>178bn</b>	149bn	19	149bn	19

M&G is our UK and European fund manager, responsible for £178 billion of investments as at 30 June 2010 on behalf of both internal and external clients. M&G is an investment-led business which aims to deliver superior investment performance and maximise risk-adjusted returns in a variety of macro-economic environments. Through M&G we seek to add value to our Group by generating attractive returns on internal funds as well as growing profits from the management of third-party assets.

External funds now represent 42 per cent of M&G's total funds under management (FUM). M&G's overall strategy is to focus first and foremost on investment performance, by recruiting, developing and retaining market-leading investment talent, and by creating the environment and infrastructure this talent needs to perform to its full potential.

In the retail market, M&G's strategy is to maximise the value of a centralised investment function through a multi-channel, multi-geography distribution approach. Key themes in recent years have included growing the proportion of business sourced from intermediated channels and increased sales of UK-based funds in European and other international markets.

M&G's institutional strategy centres on leveraging capabilities developed primarily for internal funds into higher-margin external business opportunities. In recent years this has allowed M&G to operate at the forefront of a number of specialist fixed income strategies, including leveraged finance and infrastructure investment.

### **Financial performance**

Profits at the operating level for the first half rose to £122 million, a 63 per cent increase compared with the same period in 2009. This is a record level of interim profits for M&G and reflects primarily higher equity market levels. A continuation of exceptionally strong net inflows, particularly in the Retail Business, and increased sales of more profitable equity products also contributed to the rise.

The Retail Business in the UK and Europe continued to attract exceptional levels of new money. Net inflows, including South Africa, totalled £3.4 billion for the first six months of the year. Although this was lower than the £4.1 billion gathered during the same period in 2009, it is far higher than we anticipated at the start of the year.

We had expected inflows to return to more normal levels this year after a record 2009 for M&G, when clients invested heavily in its top-performing bond funds to exploit a near unique opportunity in fixed income markets. However, retail fund flows have continued to be exceptional and are now spread across a wider range of funds. In the UK market M&G has now been the top net seller of retail funds for six consecutive quarters.

Much of this is due to excellent investment performance. Over the three years ending 30 June 2010, 34 per cent of M&G's retail funds ranked in the top quartile and 66 per cent of funds in the top half. The consistency and excellence of its performance resulted in M&G being recently awarded the prestigious Global Group of the Year 2010 nomination by *Investment Week*. This is the second time in three years that M&G has received this award.

The Institutional Business also attracted strong new business with net inflows at £1.3 billion for the first half of 2010, including £1.1 billion of new money into public debt funds and a new £0.1 billion into the Private Finance business. This compares with net inflows of £4.6 billion for the same period last year, although this was flattered by a single fixed income mandate for £4 billion. Investment performance on the Institutional side continues to be particularly strong with 95 per cent of our external mandates at or above benchmark over the three years to 30 June 2010.

Net new business at the group level for the first half of 2010 remained strong at £4.7 billion. This was in line with net inflows for the same period last year, once the single institutional fixed income mandate of £4 billion is excluded from the comparator figure.

M&G's total funds under management at 30 June 2010 were £178.5 billion, up two per cent on the 2009 year-end and up 19 per cent on the first half of 2009. Total external funds under management at 30 June 2010 were £75.7 billion, a rise of eight per cent since the start of the year and of 35 per cent compared with 30 June 2009. The increase in external funds in the first half represents the combined result of market and other movements of £0.7 billion and net flows of £4.7 billion.

M&G continues to provide capital efficient profits and cash generation for the Prudential Group, as well as strong investment returns on our long-term business funds. Cash remittances of £80 million to date in 2010 to Group provided strong support for the Group's corporate objectives.

### **Relative performance**

In its core UK retail market, M&G continues to outsell all of its competitors. Based on the Investment Management Association (IMA) UK retail numbers to the end of June 2010 M&G had a 10 per cent market share in gross retail inflows and a 19 per cent market share in net retail inflows. In consequence, M&G's retail assets under management have grown 13 per cent in the six months to the end of June compared with four per cent growth for the market as a whole, according to the IMA.

### **Prudential Capital**

Prudential Capital manages Prudential Group's balance sheet for profit by leveraging Prudential Group's market position. This business has three strategic objectives: to operate a first-class wholesale and capital markets interface; to realise profitable proprietary opportunities within a tightly controlled risk framework; and to provide professional treasury services to the Prudential Group. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Prudential Group and its clients.

The business has consolidated its position in a period of difficult and volatile markets, focusing on liquidity across the Prudential Group, management of existing asset portfolio and conservative levels of new investment. Development of new product and infrastructure has continued, helping to maintain the dynamism and flexibility necessary to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Prudential Group to exploit opportunities and increase value creation for Prudential as a whole. In particular, Prudential Capital offers to the Prudential Group a holistic view on hedging strategy, liquidity and capital management.

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. As a result of lower operating revenue and prevailing market conditions, IFRS operating profits decreased by 22 per cent to £21 million, however, PruCap still delivered a cash remittance to the Group holding company of £50 million.



### Asia Asset Management

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Third party net inflows	(298)	1,456	(120)	1,565	(119)
Funds under management	<b>46.1 bn</b>	35.8 bn	29	41.0 bn	12
Total IFRS operating profit	<b>36</b>	21	71	21	71

The net retail outflows for the first half were driven by substantial outflows from money market funds in India with corporate clients bolstering their cash positions ahead of the 3G telecom license auction, the need for banks to hold more cash as result of reserve ratio changes implemented by the Reserve Bank of India and a surge in primary debt issuance. These net outflows masked what was otherwise a successful first half of 2010 with net inflows to non money market funds of £1,327 million of which £753 million was to higher margin equity funds.

Total funds under management (FUM) for the first half of 2010, at £46.1 billion, were 29 per cent higher than the same period last year. The overall FUM level is comprised of £21.6 billion from Prudential's Asian life funds, £4.2 billion assets from the rest of the Group, and £20.3 billion from third parties.

IFRS operating profits of £36 million for the first half 2010 are up 71 per cent on the same period last year principally on higher revenues.

United States

## US Asset Management

### *PPM America*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Total IFRS operating profit	8	3	167	3	167

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides other affiliated and unaffiliated institutional clients with investment services including collateralised debt obligations (CDOs), private equity funds, institutional accounts, and mutual funds. PPMA's strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Prudential Group. PPMA also pursues third-party mandates on an opportunistic basis.

### Financial performance

IFRS operating profit in the first half of 2010 was £8 million, compared to £3 million in the same period of 2009.

At 30 June 2010, funds under management of £54 billion were as follows:

	Half year 2010				AER Half year 2009			
	US	UK	Asia	Total	US	UK	Asia	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Insurance	33	15	-	48	26	10	-	36
Unitised	-	1	4	5	-	1	3	4
CDOs	1	-	-	1	1	-	-	1
<b>Total funds under management</b>	<b>34</b>	<b>16</b>	<b>4</b>	<b>54</b>	<b>27</b>	<b>11</b>	<b>3</b>	<b>41</b>

### *US Broker dealer*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Revenue	224	191	17	187	20
Costs	(219)	(189)	16	(185)	18
Total IFRS operating profit	5	2	150	2	150

National Planning Holdings, Inc. (NPH) is Jackson's affiliated independent broker-dealer network. The business is comprised of four broker-dealer firms, including INVEST Financial Corporation, Investment Centers of America, National Planning Corporation, and SII Investments.

NPH continues to grow the business and attract new representatives. By utilising high-quality, state-of-the-art technology, we provide NPH's advisers with the tools they need to operate their practices more efficiently. At the same time, through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, as well as receive valuable insights into the needs of financial advisers and their clients.

### Financial performance

NPH generated revenues of £224 million during the first half of the year, up from £191 million in the same period of 2009, on gross product sales of £4.7 billion. The network continues to achieve profitable results, with IFRS

operating profit through 30 June 2010 of £5 million, a 150 per cent increase from £2 million in the first half of 2009. At 30 June 2010, the NPH network had 3,455 registered advisers, down slightly from 3,478 at year-end 2009.

### *Curian*

	AER			CER	
	Half year 2010 £m	Half year 2009 £m	Change %	Half year 2009 £m	Change %
Gross investment flows	<b>669</b>	270	148	264	153
Revenue	<b>20</b>	14	43	14	43
Costs	<b>(18)</b>	(17)	6	(17)	6
Total IFRS operating profit/(loss)	<b>2</b>	(3)	167	(3)	167

Curian Capital, Jackson's registered investment advisor, provides innovative fee-based separately-managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also complementing Jackson's core annuity product lines.

### *Financial performance*

At 30 June 2010, Curian had total assets under management of £2.8 billion, compared to £2.3 billion at the end of 2009 and £1.6 billion at 30 June 2009. Curian generated deposits of £669 million through June 2010, up 148 per cent over the same period in 2009. The increase in both deposits and assets under management was mainly due to a rebound from the difficult conditions in the equity markets in early 2009.

With Curian's assets under management surpassing its break-even point in early 2010, Curian reported its first half-yearly IFRS basis operating profit during the first half of 2010, with a net profit of £2 million versus a loss of £3 million during the first half of 2009.

# European Embedded Value (EEV) basis results

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<b>Total insurance and investment products new business</b>	<b>31</b>
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# European Embedded Value (EEV) basis results

## Operating profit based on longer-term investment returns<sup>note i</sup>

### Results analysis by business area

	Note	Half Year 2010 £m	Half Year 2009 notes iv,vi £m	Full Year 2009 notes iv,vi £m
<b>Asian operations</b>				
New business:				
Excluding Japan	2	396	286	725
Japan <sup>note v</sup>		(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
<b>US operations</b>				
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
<b>UK operations</b>				
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
<b>Other income and expenditure</b>				
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 <sup>note ii</sup>		(22)	(16)	(38)
Total		(262)	(195)	(433)
Solvency II implementation costs		(22)	-	-
Restructuring costs <sup>note iii</sup>		(5)	(14)	(27)
<b>Operating profit based on longer-term investment returns<sup>v</sup></b>		<b>1,677</b>	<b>1,246</b>	<b>3,090</b>
Analysed as profits (losses) from:				
New business:				
Excluding Japan	2	892	700	1,619
Japan <sup>note v</sup>		(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

#### 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.

## Summarised consolidated income statement

	Note	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
<b>Operating profit based on longer-term investment returns</b>				
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)
<b>Operating profit based on longer-term investment returns</b>		<b>1,677</b>	<b>1,246</b>	<b>3,090</b>
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
<b>Profit from continuing operations before tax (including actual investment returns)</b>		<b>954</b>	<b>67</b>	<b>1,743</b>
Tax attributable to shareholders' profit	11	(140)	(52)	(481)
<b>Profit from continuing operations after tax before non-controlling interests</b>		<b>814</b>	<b>15</b>	<b>1,262</b>
Discontinued operations (net of tax)	1c	-	-	(14)
<b>Profit for the period</b>		<b>814</b>	<b>15</b>	<b>1,248</b>
Attributable to:				
Equity holders of the Company		812	14	1,245
Non-controlling interests		2	1	3
<b>Profit for the period</b>		<b>814</b>	<b>15</b>	<b>1,248</b>

## Earnings per share (in pence)

	Note	Half year 2010	Half year 2009	Full year 2009
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)

	Half year 2010	Half year 2009	Full year 2009
Dividends relating to reporting period:			
Interim dividend (2010 and 2009)	6.61p	6.29p	6.29p
Second interim dividend (2009)	-	-	13.56p
<b>Total</b>	<b>6.61p</b>	<b>6.29p</b>	<b>19.85p</b>
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
<b>Total</b>	<b>13.56p</b>	<b>12.91p</b>	<b>19.20p</b>

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

	Note	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
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)	7,10	15,273	14,956	14,956
<b>Shareholders' equity at end of period (excluding non-controlling interests)</b>	7,10	<b>16,672</b>	<b>13,720</b>	<b>15,273</b>

### Comprising:

	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
	<b>6,971</b>	<b>241</b>	<b>7,212</b>	<b>5,244</b>	<b>205</b>	<b>5,449</b>	<b>5,861</b>	<b>222</b>	<b>6,083</b>
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
	<b>4,984</b>	<b>127</b>	<b>5,111</b>	<b>3,852</b>	<b>101</b>	<b>3,953</b>	<b>4,122</b>	<b>111</b>	<b>4,233</b>
UK insurance operations:									
Net assets of operation M&G	5,442	17	5,459	4,658	19	4,677	5,439	37	5,476
Net assets of operation	-	190	190	-	178	178	-	173	173
Acquired goodwill	-	1,153	1,153	-	1,153	1,153	-	1,153	1,153
	<b>-</b>	<b>1,343</b>	<b>1,343</b>	<b>-</b>	<b>1,331</b>	<b>1,331</b>	<b>-</b>	<b>1,326</b>	<b>1,326</b>
	<b>5,442</b>	<b>1,360</b>	<b>6,802</b>	<b>4,658</b>	<b>1,350</b>	<b>6,008</b>	<b>5,439</b>	<b>1,363</b>	<b>6,802</b>
Other operations:									
Holding company net borrowings at market value <sup>note 9</sup>	-	(2,343)	(2,343)	-	(861)	(861)	-	(1,780)	(1,780)
Other net liabilities	-	(110)	(110)	-	(829)	(829)	-	(65)	(65)
	<b>-</b>	<b>(2,453)</b>	<b>(2,453)</b>	<b>-</b>	<b>(1,690)</b>	<b>(1,690)</b>	<b>-</b>	<b>(1,845)</b>	<b>(1,845)</b>
<b>Shareholders' equity at end of period (excluding non-controlling interests)</b>	<b>17,397</b>	<b>(725)</b>	<b>16,672</b>	<b>13,754</b>	<b>(34)</b>	<b>13,720</b>	<b>15,422</b>	<b>(149)</b>	<b>15,273</b>
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
	<b>17,397</b>	<b>(725)</b>	<b>16,672</b>	<b>13,754</b>	<b>(34)</b>	<b>13,720</b>	<b>15,422</b>	<b>(149)</b>	<b>15,273</b>

	30 Jun 2010	30 Jun 2009	31 Dec 2009
<b>Net asset value per share (in pence)</b>			
Based on EEV basis shareholders' equity of £16,672m (half year 2009: £13,720m; full year 2009: £15,273m)	<b>657p</b>	544p	603p
Number of issued shares at period end (millions)	<b>2,539</b>	2,524	2,532
<b>Annualised return on embedded value*</b>	<b>16%</b>	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	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
<b>Total assets less liabilities, before deduction for insurance funds</b>		<b>214,771</b>	175,714	201,501
Less insurance funds: *				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		<b>(207,610)</b>	(170,994)	(195,230)
Less shareholders' accrued interest in the long-term business		<b>9,511</b>	9,000	9,002
		<b>(198,099)</b>	(161,994)	(186,228)
<b>Total net assets</b>	7,10	<b>16,672</b>	13,720	15,273
Share capital		<b>127</b>	126	127
Share premium		<b>1,856</b>	1,840	1,843
IFRS basis shareholders' reserves		<b>5,178</b>	2,754	4,301
Total IFRS basis shareholders' equity	7	<b>7,161</b>	4,720	6,271
Additional EEV basis retained profit	7	<b>9,511</b>	9,000	9,002
<b>Shareholders' equity (excluding non-controlling interests)</b>	7,10	<b>16,672</b>	13,720	15,273

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



# Notes on the EEV basis supplementary information

## 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 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 I 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 I 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.

#### *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.

#### ***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:

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

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

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

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

	New business margin (APE) %		
	Half year 2010	Half year 2009	Full year 2009
Asian operations <sup>note vi</sup> :			
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
<b>Weighted average for all Asian operations</b>	<b>56</b>	<b>55</b>	<b>60</b>

### Notes

- 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.
- 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.
- 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.
- 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.
- The half year and full year 2009 comparatives shown in the table are translated at average exchange rates for the period.
- 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			Total £m
	Asian operations note i £m	US operations note ii £m	UK operations note iii £m	
	Unwind of discount and other expected returns	300	181	
Effect of changes in operating assumptions	(14)	3	-	(11)
Experience variances and other items	(45)	122	22	99
<b>Total</b>	<b>241</b>	<b>306</b>	<b>314</b>	<b>861</b>

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

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

#### Analysis by business unit

i Asian operations

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

#### 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.
- 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

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

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
Unwind of discount and other expected returns	292	291	588
Other items <sup>note</sup>	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.

	Half year 2010 £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)
<b>Total costs after tax</b>	<b>284</b>

## 5 Short-term fluctuations in investment returns

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

### Notes

#### i Asian operations

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

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.

#### ii US operations

The fluctuations for US operations comprise the following items:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
Actual realised losses less default assumption and amortisation of interest-related gains and losses for fixed income securities and related swap transactions <sup>a</sup>	(175)	(287)	(367)
Actual less long-term return on equity based investments and other items <sup>b</sup>	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 <sup>c</sup>	30	58	110
<b>Total Jackson</b>	<b>(140)</b>	<b>(304)</b>	<b>(401)</b>

### 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:

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

### 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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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
	<b>12</b>	<b>75</b>	<b>105</b>

## 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 <sup>note i</sup>	(61)	5	(56)	(86)	(3)	(89)	(165)	(9)	(174)
US operations <sup>note ii</sup>	(20)	6	(14)	(60)	24	(36)	(528)	10	(518)
UK insurance operations <sup>notes iii, iv</sup>	25	(7)	18	(264)	5	(259)	(270)	52	(218)
<b>Total</b>	<b>(56)</b>	<b>4</b>	<b>(52)</b>	<b>(410)</b>	<b>26</b>	<b>(384)</b>	<b>(963)</b>	<b>53</b>	<b>(910)</b>

### 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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
Effect of changes in 10-year treasury rates, beta and equity risk premium: <sup>a</sup>			
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 <sup>b</sup>	-	-	(301)
	<b>(20)</b>	<b>(60)</b>	<b>(528)</b>

### 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.

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 <sup>note a</sup>	With-profits and other business <sup>note b</sup>	Total	Shareholder-backed annuity business <sup>note a</sup>	With-profits and other business <sup>note b</sup>	Total	Shareholder-backed annuity business <sup>note a</sup>	With-profits and other business <sup>note b</sup>	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)
	<b>28</b>	<b>(3)</b>	<b>25</b>	<b>(159)</b>	<b>(105)</b>	<b>(264)</b>	<b>(19)</b>	<b>(251)</b>	<b>(270)</b>

**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

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
<b>Asian operations</b>			
Long-term business:			
Net assets of operations – EEV basis shareholders' funds	6,736	5,164	5,781
Acquired goodwill <sup>note iii</sup>	235	80	80
	6,971	5,244	5,861
Asset management: <sup>note i</sup>			
Net assets of operations	180	144	161
Acquired goodwill	61	61	61
	241	205	222
	7,212	5,449	6,083
<b>US operations</b>			
Jackson – EEV basis shareholders' funds (net of surplus note borrowings of £182m (half year 2009: £140m; full year 2009: £158m) <sup>note 9</sup> )			
	4,984	3,852	4,122
Broker-dealer and asset management operations: <sup>note i</sup>			
Net assets of operations	111	85	95
Acquired goodwill	16	16	16
	127	101	111
	5,111	3,953	4,233
<b>UK operations</b>			
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 <sup>note i</sup>	17	19	37
	5,459	4,677	5,476
M&G: <sup>note i</sup>			
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
<b>Other operations</b>			
Holding company net borrowings at market value <sup>note 9</sup>			
	(2,343)	(861)	(1,780)
Other net liabilities <sup>note i</sup>			
	(110)	(829)	(65)
	(2,453)	(1,690)	(1,845)
<b>Total</b>	<b>16,672</b>	<b>13,720</b>	<b>15,273</b>

### 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 <sup>note ii</sup>	(656)	(69)	(725)	(632)	598	(34)	(104)	(45)	(149)
<b>Group total</b>	<b>7,161</b>	<b>9,511</b>	<b>16,672</b>	<b>4,720</b>	<b>9,000</b>	<b>13,720</b>	<b>6,271</b>	<b>9,002</b>	<b>15,273</b>

### 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:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £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
<b>Long-term business and asset management operations</b> <sup>note i</sup>			
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 <sup>note iii</sup>	56	(4)	52
	849	150	999
Net cash flows to parent company <sup>note iv</sup>	(344)	(116)	(460)
Exchange movements, timing differences and other items <sup>note v</sup>	167	(2)	165
<b>Net movement in free surplus</b>	672	32	704
Balance at 1 January 2010	2,065	466	2,531
<b>Balance at 30 June 2010</b>	2,737	498	3,235
Representing:			
Asian operations <sup>note 13</sup>	970	180	1,150
US operations <sup>note 13</sup>	1,209	111	1,320
UK insurance operations <sup>note 13</sup>	558	207	765
	2,737	498	3,235
1 January 2010			
Representing:			
Asian operations <sup>note 13</sup>	801	161	962
US operations <sup>note 13</sup>	749	95	844
UK insurance operations <sup>note 13</sup>	515	210	725
	2,065	466	2,531

### Notes

- All figures are shown net of tax.
- 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.
- 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.
- 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.
- 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 <sup>note 13</sup>	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 adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	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 <sup>note</sup>	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:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £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					
	Long-term business operations					Group Total
	Asian operations	US operations	UK insurance operations	Total long-term business operations	Other operations	
<b>Operating profit (based on longer-term investment returns)</b>						
Long-term business:						
New business:						
Excluding Japan <sup>note 2</sup>	396	361	135	892	-	892
Japan	(1)	-	-	(1)	-	(1)
Total	395	361	135	891	-	891
Business in force <sup>note 3</sup>	241	306	314	861	-	861
Asia development expenses	636	667	449	1,752	-	1,752
UK general insurance commission	(3)	-	-	(3)	-	(3)
M&G	-	-	-	-	23	23
Asian asset management operations	-	-	-	-	143	143
US broker-dealer and asset management	-	-	-	-	36	36
Other income and expenditure	-	-	-	-	15	15
Solvency II implementation costs	-	-	(2)	(2)	(20)	(22)
Restructuring costs	-	-	(5)	(5)	-	(5)
<b>Operating profit based on longer-term investment returns</b>	<b>633</b>	<b>667</b>	<b>442</b>	<b>1,742</b>	<b>(65)</b>	<b>1,677</b>
Short-term fluctuations in investment returns <sup>note 5</sup>	(21)	(140)	(78)	(239)	12	(227)
Mark to market value movements on core borrowings <sup>note 9</sup>	-	(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 <sup>note 6</sup>	(56)	(14)	18	(52)	-	(52)
Costs of terminated AIA transaction <sup>note 4</sup>	-	-	-	-	(377)	(377)
<b>Profit (loss) from continuing operations before tax (including actual investment returns)</b>	<b>556</b>	<b>501</b>	<b>373</b>	<b>1,430</b>	<b>(476)</b>	<b>954</b>
Tax (charge) credit attributable to shareholders' profit (loss): <sup>note 11</sup>						
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 <sup>note 4</sup>	-	-	-	-	93	93
<b>Total tax (charge) credit</b>	<b>(117)</b>	<b>(27)</b>	<b>(104)</b>	<b>(248)</b>	<b>108</b>	<b>(140)</b>
Non-controlling interests	-	-	-	-	(2)	(2)
<b>Profit (loss) for the period</b>	<b>439</b>	<b>474</b>	<b>269</b>	<b>1,182</b>	<b>(370)</b>	<b>812</b>
Exchange movements on foreign operations and net investment hedges <sup>note 1</sup>	535	336	-	871	(65)	806
Related tax	-	-	-	-	(8)	(8)
Intra-group dividends (including statutory transfer) <sup>note iv</sup>	(114)	-	(261)	(375)	375	-
External dividends	-	-	-	-	(344)	(344)
Reserve movements in respect of share-based payments	-	-	-	-	15	15
Acquisition of UOB Life <sup>notes iii and 14</sup>	75	-	-	75	(75)	-
Investment in operations <sup>note iv</sup>	21	-	4	25	(25)	-
Other transfers <sup>note v</sup>	(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) <sup>note 13</sup>	-	67	-	67	-	67
<b>Net increase (decrease) in shareholders' equity</b>	<b>955</b>	<b>862</b>	<b>3</b>	<b>1,820</b>	<b>(421)</b>	<b>1,399</b>
Shareholders' equity at 1 January 2010 <sup>notes ii and 7</sup>	5,781	4,122	5,439	15,342	(69)	15,273
<b>Shareholders' equity at 30 June 2010<sup>notes ii and 7</sup></b>	<b>6,736</b>	<b>4,984</b>	<b>5,442</b>	<b>17,162</b>	<b>(490)</b>	<b>16,672</b>

### Notes

- 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.
- For the purposes of the table above, goodwill related to Asia long-term operations (as shown in note 7) is included in Other operations.
- 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	Total
Intra-group dividends (including statutory transfer)	(114)	-	(261)	(375)	375	-
Investment in operations <sup>a</sup>	21	-	4	25	(25)	-
Total <sup>b</sup>	(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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
<b>Tax charge on operating profit based on longer-term investment returns:</b>			
Long-term business:			
Asian operations <sup>note i</sup>	133	83	239
US operations	227	175	416
UK insurance operations <sup>note i</sup>	123	113	245
	483	371	900
Other operations	(18)	(7)	(34)
<b>Total tax charge on operating profit based on longer-term investment returns</b>	<b>465</b>	<b>364</b>	<b>866</b>
<b>Tax credit on items not included in operating profit:</b>			
Tax credit on short-term fluctuations in investment returns <sup>note ii</sup>	(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)	-	-
<b>Total tax credit on items not included in operating profit</b>	<b>(325)</b>	<b>(312)</b>	<b>(385)</b>
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)

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
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 <sup>note i</sup>

Group	Half year 2010 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note iv	Total long-term business
<b>Shareholders' equity at 1 January 2010</b>	2,065	2,994	5,059	10,283	15,342
New business contribution: <sup>notes ii, iii</sup>					
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)
<b>Profit after tax and non-controlling interests from long-term business</b>	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 <sup>note v</sup>	(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)
<b>Shareholders' equity at 30 June 2010</b>	2,737	3,249	5,986	11,176	17,162
<b>Representing:</b>					
<b>Asian operations</b>					
<b>Shareholders' equity at 1 January 2010</b>	801	585	1,386	4,395	5,781
New business contribution: <sup>notes ii, iii</sup>					
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)
<b>Profit after tax and non-controlling interests from long-term business</b>	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 <sup>note v</sup>	(128)	-	(128)	35	(93)
Other transfers from net worth	(1)	-	(1)	-	(1)
<b>Shareholders' equity at 30 June 2010</b>	970	713	1,683	5,053	6,736
<b>US operations</b>					
<b>Shareholders' equity at 1 January 2010</b>	749	1,405	2,154	1,968	4,122
New business contribution <sup>note ii</sup>	(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
<b>Profit after tax and non-controlling interests from long-term business</b>	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)
<b>Shareholders' equity at 30 June 2010</b>	1,209	1,477	2,686	2,298	4,984

	Half year 2010 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business note iv	Total long-term business
<b>UK insurance operations</b>					
<b>Shareholders' equity at 1 January 2010</b>	515	1,004	1,519	3,920	5,439
New business contribution <sup>note ii</sup>	(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)
<b>Profit after tax and non-controlling interests from long-term business</b>	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)
<b>Shareholders' equity at 30 June 2010</b>	558	1,059	1,617	3,825	5,442

#### 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 term business operations note iii	Total long-term business operations
Pre-tax new business contribution <sup>note 2</sup>	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 term business operations note iii	Total long-term business operations (as previously published)
Pre-tax new business contribution <sup>note 2</sup>	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 term business operations note iii	Total long-term business operations (as previously published)
Pre-tax new business contribution <sup>note 2</sup>	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

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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:

	Asian operations	US operations	UK insurance operations	Group
<b>Half year 2010</b>				
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 <sup>a</sup>	(273)	(159)	(229)	(661)
Cost of time value of guarantees <sup>b</sup>	(14)	(330)	(48)	(392)
Net value of in-force business	5,053	2,298	3,825	11,176
<b>Half year 2009</b>				
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	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)
<b>Net value of in-force business</b>	<b>4,395</b>	<b>1,968</b>	<b>3,920</b>	<b>10,283</b>

- 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)
<b>Goodwill arising on acquisition</b>	<b>145</b>

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			Total long-term business operations
	Asian Operations (including Japan*)	US operations	UK insurance operations	
<b>New business profit for half year 2010</b>				
As reported <sup>note 10</sup>	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
<b>Embedded value of long-term operations at 30 June 2010</b>				
As reported <sup>note 10</sup>	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
<b>Embedded value of long-term operations at 31 December 2009</b>				
As reported <sup>note 10</sup>	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
		notes ii, iii					note iii		note iii			
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

	30 Jun 2009 %											
	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam
		notes ii, iii					note iii		note iii			
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

	31 Dec 2009 %											
	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Vietnam
	note iv	notes ii, iii		note iv		note iv	note iii	note iv	note iii			note iv
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 %		
	30 Jun 2010	30 Jun 2009	31 Dec 2009
Weighted risk discount rate: <sup>note i</sup>			
New business (excluding Japan)	9.1	9.3	9.0
In force	8.6	8.5	8.8

#### Notes

- 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.
- The assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force Hong Kong business.
- The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	30 Jun 2010 %	30 Jun 2009 %	31 Dec 2009 %
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.

- 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: <sup>note iii</sup>			
Fixed Annuity business (including the proportion of variable annuity business invested in the general account): <sup>note i</sup>			
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: <sup>note ii</sup>			
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 than, 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.

**UK insurance operations<sup>note iv</sup>**

	30 Jun 2010 %	30 Jun 2009 %	31 Dec 2009 %
<b>Shareholder-backed annuity business:</b>			
Risk discount rate: <sup>notes i, iv</sup>			
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: <sup>note iii</sup>			
Fixed annuities	5.1	6.7	5.6
Inflation-linked annuities	5.5	6.1	5.8
<b>Other business:</b>			
Risk discount rate: <sup>notes ii, iv</sup>			
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: <sup>note iv</sup>	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:

	Half year 2010 (bps)	Half year 2009 (bps)	Full year 2009 (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:

	Half year 2010 (bps)	Half year 2009 (bps)	Full year 2009 (bps)
Bond spread over swap rates	110	249	198
Total credit risk allowance <sup>note</sup>	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 from 1.3 per cent to 2.4 per cent (half year 2009 and full year 2009: 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:

	Half year 2010 %	Half year 2009 %	Full year 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***

Persistency, 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<sup>notes i,iii,iv</sup>

	Single			Regular			Annual premium and contribution equivalents (APE)			Present value of new business premiums (PVNBP)		
	Half year 2010	Half year 2009	Full year 2009	Half year 2010	Half year 2009	Full year 2009	Half year 2010	Half year 2009	Full year 2009	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Group insurance operations</b>												
Asia – excl Japan <sup>note iii</sup>	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
<b>Group total</b>	<b>8,369</b>	<b>6,614</b>	<b>14,495</b>	<b>825</b>	<b>660</b>	<b>1,447</b>	<b>1,662</b>	<b>1,321</b>	<b>2,896</b>	<b>12,000</b>	<b>9,657</b>	<b>21,195</b>
<b>Asian insurance operations</b>												
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
<b>SE Asia inc. Hong Kong</b>	<b>268</b>	<b>200</b>	<b>524</b>	<b>425</b>	<b>290</b>	<b>715</b>	<b>452</b>	<b>310</b>	<b>767</b>	<b>2,341</b>	<b>1,662</b>	<b>4,153</b>
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
<b>Total Asian operations – excl Japan</b>	<b>430</b>	<b>327</b>	<b>785</b>	<b>670</b>	<b>492</b>	<b>1,131</b>	<b>713</b>	<b>524</b>	<b>1,209</b>	<b>3,316</b>	<b>2,551</b>	<b>5,982</b>
<b>US insurance operations</b>												
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
<b>Total US insurance operations</b>	<b>5,493</b>	<b>3,798</b>	<b>8,885</b>	<b>11</b>	<b>12</b>	<b>24</b>	<b>560</b>	<b>392</b>	<b>912</b>	<b>5,569</b>	<b>3,889</b>	<b>9,048</b>
<b>UK insurance operations</b>												
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
<b>Total individual annuities</b>	<b>1,118</b>	<b>1,139</b>	<b>2,189</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>112</b>	<b>114</b>	<b>219</b>	<b>1,118</b>	<b>1,139</b>	<b>2,189</b>
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
<b>Total UK insurance operations</b>	<b>2,438</b>	<b>2,451</b>	<b>4,768</b>	<b>138</b>	<b>131</b>	<b>246</b>	<b>382</b>	<b>376</b>	<b>723</b>	<b>3,081</b>	<b>3,062</b>	<b>5,902</b>
<b>Group Total – excl Japan</b>	<b>8,361</b>	<b>6,576</b>	<b>14,438</b>	<b>819</b>	<b>635</b>	<b>1,401</b>	<b>1,655</b>	<b>1,292</b>	<b>2,844</b>	<b>11,966</b>	<b>9,502</b>	<b>20,932</b>

## Investment products – funds under management<sup>notes ii, v</sup>

	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
<b>Group total</b>	<b>89,780</b>	<b>51,355</b>	<b>(46,979)</b>	<b>1,859</b>	<b>96,015</b>

  

	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
<b>Group total</b>	<b>62,279</b>	<b>44,721</b>	<b>(34,652)</b>	<b>(12)</b>	<b>72,336</b>

## 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.

**IFRS Disclosure**  
**PRUDENTIAL PLC HALF YEAR 2010 RESULTS**

**International Financial Reporting Standards (IFRS) basis results**

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## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

### CONDENSED CONSOLIDATED INCOME STATEMENT

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

\* 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.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

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

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Period ended 30 Jun 2010							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
<b>Reserves</b>								
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
<b>Share capital and share premium</b>								
New share capital subscribed	–	39	–	–	–	39	–	39
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(26)	26	–	–	–	–	–
<b>Treasury shares</b>								
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

	Period ended 30 Jun 2009							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available -for-sale securities reserve £m	Shareholders' equity £m	Non- controlling interests £m	Total equity £m
<b>Reserves</b>								
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)
<b>Share capital and share premium</b>								
New share capital subscribed	1	95	–	–	–	96	–	96
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(95)	95	–	–	–	–	–
<b>Treasury shares</b>								
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

Year ended 31 Dec 2009

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available- for-sale securities reserve £m	Shareholders' equity £m	Non- controlling interests £m	Total equity £m
<b>Reserves</b>								
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)
<b>Share capital and share premium</b>								
New share capital subscribed	2	139	–	–	–	141	–	141
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	(136)	136	–	–	–	–	–
<b>Treasury shares</b>								
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

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS****CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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

	<b>30 Jun 2010 £m</b>	<b>30 Jun 2009 £m</b>	<b>31 Dec 2009 £m</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Shareholders' equity	7,161	4,720	6,271
Non-controlling interests	37	29	32
<b>Total equity</b>	<b>7,198</b>	<b>4,749</b>	<b>6,303</b>
<b>Liabilities</b>			
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
<b>Total (note AA)</b>	<b>208,979</b>	<b>172,108</b>	<b>196,417</b>
Core structural borrowings of shareholder-financed operations:			
Subordinated debt	2,767	2,198	2,691
Other	715	701	703
<b>Total (note X)</b>	<b>3,482</b>	<b>2,899</b>	<b>3,394</b>
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations (note Y)	3,234	2,855	2,751
Borrowings attributable to with-profits operations (note 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 (note 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
<b>Total</b>	<b>19,206</b>	<b>15,426</b>	<b>17,605</b>
<b>Total liabilities</b>	<b>236,214</b>	<b>194,637</b>	<b>221,451</b>
<b>Total equity and liabilities (note O)</b>	<b>243,412</b>	<b>199,386</b>	<b>227,754</b>

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS**

### **CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
<b>Cash flows from operating activities</b>			
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
<b>Cash flows from investing activities</b>			
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 (notes (iii) and K)	–	(436)	(497)
Acquisition of UOB Life, net of cash balance (note (iv))	(101)	–	–
Net cash flows from investing activities	(123)	(458)	(554)
<b>Cash flows from financing activities</b>			
Structural borrowings of the Group:			
Shareholder-financed operations (notes (v) and X):			
Issue of subordinated debt, net of costs	–	379	822
Redemption of senior debt	–	(249)	(249)
Interest paid	(131)	(98)	(207)
With-profits operations (notes (vi) and 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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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 cashflow 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.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS**

### **NOTES ON THE IFRS BASIS RESULTS**

#### **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

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
<u>Asian operations (note (i))</u>			
Insurance operations (note E (i)):			
Underlying results before exceptional credit	262	149	353
Exceptional credit (note E (i)(b))	–	63	63
Total Asian insurance operations	262	212	416
Development expenses	(3)	(5)	(6)
<b>Total Asian insurance operations after development expenses</b>	<b>259</b>	<b>207</b>	<b>410</b>
<b>Asian asset management</b>	<b>36</b>	<b>21</b>	<b>55</b>
Total Asian operations	295	228	465
<u>US operations</u>			
<b>Jackson (US insurance operations)</b> (notes (ii) and E (ii))	<b>450</b>	217	459
<b>Broker-dealer and asset management</b>	<b>15</b>	2	4
Total US operations	465	219	463
<u>UK operations</u>			
UK insurance operations:			
Long-term business (note E (iii))	307	303	606
General insurance commission (note (iii))	23	27	51
<b>Total UK insurance operations</b>	<b>330</b>	<b>330</b>	<b>657</b>
<b>M&amp;G</b>	<b>143</b>	102	238
Total UK operations	473	432	895
<b>Total segment profit</b>	<b>1,233</b>	879	1,823
<u>Other income and expenditure</u>			
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)
<b>Operating profit based on longer-term investment returns (note (i))</b>	<b>968</b>	688	1,405
Short-term fluctuations in investment returns on shareholder-backed business (note 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 (note G)	(377)	–	–
Loss on sale and results for Taiwan agency business (notes (i) and K)	–	(621)	(621)
<b>Profit (loss) from continuing operations before tax attributable to shareholders</b>	<b>593</b>	(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 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 (RMR) 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 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).

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:

	<b>Half year 2010</b>				
	<b>Asia</b>	<b>US</b>	<b>UK</b>	<b>Intragroup</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
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	–
<b>Total revenue from external customers</b>	<b>3,093</b>	<b>5,939</b>	<b>2,978</b>	<b>–</b>	<b>12,010</b>

	<b>Half year 2009</b>				
	<b>Asia</b>	<b>US</b>	<b>UK</b>	<b>Intragroup</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
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	–
<b>Total revenue from external customers</b>	<b>2,815</b>	<b>4,131</b>	<b>3,146</b>	<b>–</b>	<b>10,092</b>

	<b>Full year 2009</b>				
	<b>Asia</b>	<b>US</b>	<b>UK</b>	<b>Intragroup</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
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	–
<b>Total revenue from external customers</b>	<b>5,479</b>	<b>9,529</b>	<b>6,202</b>	<b>–</b>	<b>21,210</b>

	<b>Half year</b>	<b>Half year</b>	<b>Full year</b>
	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue from external customers is made up of the following:			
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
<b>Total revenue from external customers</b>	<b>12,010</b>	<b>10,092</b>	<b>21,210</b>

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:

	M&G	US	Asia	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m	£m	£m	£m
Revenue (note (i))	364	299	121	784	663	1,516
Charges (note (i))	(225)	(284)	(85)	(594)	(537)	(1,163)
<b>Profit before tax</b>	<b>139</b>	<b>15</b>	<b>36</b>	<b>190</b>	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)
	<b>139</b>	<b>15</b>	<b>36</b>	<b>190</b>	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

	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£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
<b>Total M&amp;G operating profit based on longer-term investment returns</b>	<b>143</b>	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

(c) 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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m	Full year 2008 £m
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 S.

#### 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

	<b>Pillar I regulatory basis (bps)</b>	<b>Adjustment from regulatory to IFRS basis (bps)</b>	<b>IFRS (bps)</b>
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

### 30 June 2009

	<b>Pillar I regulatory basis (bps)</b>	<b>Adjustment from regulatory to IFRS basis (bps)</b>	<b>IFRS (bps)</b>
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

	<b>Pillar I Regulatory basis (bps)</b>	<b>Adjustment from regulatory to IFRS basis (bps)</b>	<b>IFRS (bps)</b>
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 95<sup>th</sup> 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 bonds 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 1 Regulatory basis			IFRS		
	Long term	(bps) 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)
<b>Total allowance for credit risk at 30 June 2010</b>	<b>28</b>	<b>39</b>	<b>67</b>	<b>28</b>	<b>14</b>	<b>42</b>

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

	Pillar 1 Regulatory basis			IFRS		
	Long term	Short term	Total	Long term	Short term	Total
	£bn	£bn	£bn	£bn	£bn	£bn
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
<b>Total</b>	<b>0.7</b>	<b>1.0</b>	<b>1.7</b>	<b>0.7</b>	<b>0.3</b>	<b>1.0</b>

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

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
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)
<b>Total</b>	<b>26</b>	<b>(80)</b>	<b>36</b>

#### **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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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

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

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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		Annual expected losses		Average Book value		Annual expected losses		Average Book value		Annual expected losses	
	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m	US\$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)
<b>Total</b>	<b>43,749</b>	<b>0.25</b>	<b>(111)</b>	<b>(72)</b>	<b>44,060</b>	<b>0.28</b>	<b>(121)</b>	<b>(82)</b>	<b>43,901</b>	<b>0.27</b>	<b>(119)</b>	<b>(76)</b>
Related change to amortisation of deferred acquisition costs			<b>28</b>	<b>18</b>			23	16			25	16
Risk margin reserve charge for longer-term credit related losses			<b>(83)</b>	<b>(54)</b>			<b>(98)</b>	<b>(66)</b>			<b>(94)</b>	<b>(60)</b>

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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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.

	Half year 2010 £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

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

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £m
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.

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

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 not 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:

	<b>Half year 2010</b>			
	<b>Asia</b>	<b>US</b>	<b>UK</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
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
	<b>(2,170)</b>	<b>(4,852)</b>	<b>(6,628)</b>	<b>(13,650)</b>

	Half year 2009			Total £m
	Asia £m	US £m	UK £m	
Claims incurred	(847)	(2,207)	(4,964)	(8,018)
Increase 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			Total £m
	Asia £m	US £m	UK £m	
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:

Tax (charge) credit	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m
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:

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

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:

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

**(ii) Deferred tax assets and liabilities**

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

	30 Jun 2010		30 Jun 2009		31 Dec 2009	
	Deferred tax assets £m	Deferred tax liabilities £m	Deferred tax assets £m	Deferred tax liabilities £m	Deferred tax assets £m	Deferred tax liabilities £m
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	–
<b>Total</b>	<b>2,691</b>	<b>(4,115)</b>	<b>2,149</b>	<b>(2,651)</b>	<b>2,708</b>	<b>(3,872)</b>

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).

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

<b>Half year 2010</b>	<b>Asian insurance operations £m</b>	<b>US insurance operations £m</b>	<b>UK insurance operations £m</b>	<b>Other operations £m</b>	<b>Total £m</b>
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)
<b>Total</b>	<b>300</b>	<b>330</b>	<b>415</b>	<b>(452)</b>	<b>593</b>
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
<b>Total</b>	<b>(78)</b>	<b>(116)</b>	<b>(116)</b>	<b>127</b>	<b>(183)</b>
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)
<b>Total</b>	<b>33</b>	<b>22</b>	<b>(4)</b>	<b>(17)</b>	<b>34</b>
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
<b>Total</b>	<b>(45)</b>	<b>(94)</b>	<b>(120)</b>	<b>110</b>	<b>(149)</b>
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	29%	29%	28%	25%
<b>Total</b>	<b>15%</b>	<b>29%</b>	<b>29%</b>	<b>24%</b>	<b>25%</b>

<b>Half year 2009</b>	<b>Asian insurance operations £m</b>	<b>US insurance operations £m</b>	<b>UK insurance operations £m</b>	<b>Other operations £m</b>	<b>Total £m</b>
<b>(Loss) profit before tax attributable to shareholders:</b>					
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)
<b>Total</b>	<b>(455)</b>	<b>382</b>	<b>267</b>	<b>(270)</b>	<b>(76)</b>
<b>Expected tax rate (note (i)):</b>					
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%
<b>Expected tax credit (charge) based on expected tax rates:</b>					
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
<b>Total</b>	<b>115</b>	<b>(134)</b>	<b>(74)</b>	<b>91</b>	<b>(2)</b>
<b>Variance from expected tax charge (note (ii)):</b>					
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)
<b>Total</b>	<b>(125)</b>	<b>(42)</b>	<b>(8)</b>	<b>(5)</b>	<b>(180)</b>
<b>Actual tax credit (charge):</b>					
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
<b>Total</b>	<b>(10)</b>	<b>(176)</b>	<b>(82)</b>	<b>86</b>	<b>(182)</b>
<b>Actual tax rate:</b>					
Operating profit based on longer-term investment returns	16%	26%	31%	20%	26%
<b>Total</b>	<b>(2)%</b>	<b>46%</b>	<b>31%</b>	<b>32%</b>	<b>(239)%</b>

<b>Full year 2009</b>	<b>Asian insurance operations £m</b>	<b>US insurance operations £m</b>	<b>UK insurance operations £m</b>	<b>Other operations £m</b>	<b>Total £m</b>
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)
<b>Total</b>	<b>(180)</b>	<b>486</b>	<b>719</b>	<b>(279)</b>	<b>746</b>
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
<b>Total</b>	<b>49</b>	<b>(170)</b>	<b>(201)</b>	<b>89</b>	<b>(233)</b>
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)
<b>Total</b>	<b>(87)</b>	<b>272</b>	<b>(29)</b>	<b>22</b>	<b>178</b>
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
<b>Total</b>	<b>(38)</b>	<b>102</b>	<b>(230)</b>	<b>111</b>	<b>(55)</b>
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	18%	32%	35%	23%
<b>Total</b>	<b>(21)%</b>	<b>(21)%</b>	<b>32%</b>	<b>40%</b>	<b>7%</b>

## 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	Tax	Non-	Net of tax	Basic	Diluted
	(note C)	(note L)	controlling	and non-	earnings	earnings
	£m	£m	interests	controlling	per share	per share
			£m	interests	Pence	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	Tax	Non-	Net of tax	Basic	Diluted
	(note C)	(note L)	controlling	and non-	earnings	earnings
	£m	£m	interests	controlling	per share	per share
			£m	interests	Pence	Pence
				£m		
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
	Full year 2009					
	Before tax	Tax	Non-	Net of tax	Basic	Diluted
	(note C)	(note L)	controlling	and non-	earnings	earnings
	£m	£m	interests	controlling	per share	per share
			£m	interests	Pence	Pence
				£m		
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

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

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

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



(ii) Group statement of financial position – additional analysis by type of business

<u>Shareholder-backed business</u>									
	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun 2010 Group total	30 Jun 2009 Group total	31 Dec 2009 Group total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>									
Intangible assets attributable to shareholders:									
Goodwill (note R)	–	–	235	1,230	–	–	1,465	1,310	1,310
Deferred acquisition costs and other intangible assets (note S)	–	–	4,020	8	–	–	4,028	4,045	4,049
<b>Total</b>	<b>–</b>	<b>–</b>	<b>4,255</b>	<b>1,238</b>	<b>–</b>	<b>–</b>	<b>5,493</b>	<b>5,355</b>	<b>5,359</b>
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
<b>Total</b>	<b>234</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>234</b>	<b>270</b>	<b>230</b>
<b>Total</b>	<b>234</b>	<b>–</b>	<b>4,255</b>	<b>1,238</b>	<b>–</b>	<b>–</b>	<b>5,727</b>	<b>5,625</b>	<b>5,589</b>
Deferred tax assets (note 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 (note 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 (note 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
<b>Total Investments</b>	<b>101,104</b>	<b>53,814</b>	<b>64,219</b>	<b>3,323</b>	<b>139</b>	<b>–</b>	<b>222,599</b>	<b>179,457</b>	<b>208,722</b>
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
<b>Total assets</b>	<b>106,039</b>	<b>55,913</b>	<b>75,236</b>	<b>6,654</b>	<b>5,371</b>	<b>(5,801)</b>	<b>243,412</b>	<b>199,386</b>	<b>227,754</b>

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

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

	PAC with-profits sub-fund (WPSF) (note (i))				Other funds and subsidiaries			30 Jun 2010 Total £m	30 Jun 2009 Total £m	31 Dec 2009 Total £m
	Scottish Amicable Insurance Fund (note (ii)) £m	Excluding Prudential Annuities Limited £m	Prudential Annuities Limited (note (iii)) £m	Total (note (iv)) £m	Unit- linked assets and liabilities £m	Annuity and other long-term business £m	Total £m			
<b>Equity and liabilities</b>										
<b>Equity</b>										
Shareholders' equity	–	–	–	–	–	1,937	1,937	<b>1,937</b>	1,749	1,939
Non-controlling interests	–	32	–	32	–	–	–	<b>32</b>	26	28
<b>Total equity</b>	–	32	–	32	–	1,937	1,937	<b>1,969</b>	1,775	1,967
<b>Liabilities</b>										
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	<b>118,180</b>	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	–	–	–	<b>10,014</b>	7,015	9,966
<b>Total</b>	9,626	63,877	14,141	78,018	19,456	21,094	40,550	<b>128,194</b>	112,384	126,195
Operational borrowings attributable to shareholder-financed operations	–	–	–	–	–	159	159	<b>159</b>	28	158
Borrowings attributable to with-profits funds (note Y)	118	1,195	–	1,195	–	–	–	<b>1,313</b>	1,349	1,284
Deferred tax liabilities	56	663	210	873	–	354	354	<b>1,283</b>	1,198	1,606
Other non-insurance liabilities	403	3,128	710	3,838	704	3,472	4,176	<b>8,417</b>	7,026	7,371
<b>Total liabilities</b>	10,203	68,863	15,061	83,924	20,160	25,079	45,239	<b>139,366</b>	121,985	136,614
<b>Total equity and liabilities</b>	<b>10,203</b>	<b>68,895</b>	<b>15,061</b>	<b>83,956</b>	<b>20,160</b>	<b>27,016</b>	<b>47,176</b>	<b>141,335</b>	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% 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
	<b>4,323</b>	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.

(ii) US insurance operations

	30 Jun 2010			30 Jun 2009			31 Dec 2009		
	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>									
Intangible assets attributable to shareholders:									
Deferred acquisition costs (note S)	–	2,950	2,950	–	3,259	3,259	–	3,092	3,092
<b>Total</b>	<b>–</b>	<b>2,950</b>	<b>2,950</b>	<b>–</b>	<b>3,259</b>	<b>3,259</b>	<b>–</b>	<b>3,092</b>	<b>3,092</b>
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 (note 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 (notes V and W)	–	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
<b>Total investments</b>	<b>24,291</b>	<b>34,316</b>	<b>58,607</b>	<b>14,512</b>	<b>27,355</b>	<b>41,867</b>	<b>20,639</b>	<b>28,937</b>	<b>49,576</b>
Properties held-for-sale	–	3	3	–	–	–	–	3	3
Cash and cash equivalents	–	153	153	–	343	343	–	340	340
<b>Total assets</b>	<b>24,291</b>	<b>40,659</b>	<b>64,950</b>	<b>14,512</b>	<b>33,635</b>	<b>48,147</b>	<b>20,639</b>	<b>35,720</b>	<b>56,359</b>
<b>Equity and liabilities</b>									
<b>Equity</b>									
Shareholders' equity	–	3,905	3,905	–	2,046	2,046	–	3,011	3,011
Non-controlling interests	–	–	–	–	–	–	–	–	–
<b>Total equity</b>	<b>–</b>	<b>3,905</b>	<b>3,905</b>	<b>–</b>	<b>2,046</b>	<b>2,046</b>	<b>–</b>	<b>3,011</b>	<b>3,011</b>
<b>Liabilities</b>									
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
<b>Total</b>	<b>24,291</b>	<b>30,962</b>	<b>55,253</b>	<b>14,512</b>	<b>26,980</b>	<b>41,492</b>	<b>20,639</b>	<b>27,672</b>	<b>48,311</b>
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
<b>Total liabilities</b>	<b>24,291</b>	<b>36,754</b>	<b>61,045</b>	<b>14,512</b>	<b>31,589</b>	<b>46,101</b>	<b>20,639</b>	<b>32,709</b>	<b>53,348</b>
<b>Total equity and liabilities</b>	<b>24,291</b>	<b>40,659</b>	<b>64,950</b>	<b>14,512</b>	<b>33,635</b>	<b>48,147</b>	<b>20,639</b>	<b>35,720</b>	<b>56,359</b>

**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:

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

\* 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

	<b>Half year 2010</b>	<b>Half year 2009</b>	<b>Full year 2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Operating profits based on longer-term investment returns (note C)	450	217	459
Short-term fluctuations in investment returns (note F)	(120)	165	27
Profit before shareholder tax	330	382	486
Tax (note L)	(94)	(176)	102
Profit for the period	236	206	588
	<b>Half year 2010</b>	<b>Half year 2009</b>	<b>Full year 2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
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 (note 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	<b>3,905</b>	<b>2,046</b>	<b>3,011</b>

(iii) Asian insurance operations

	30 Jun 2010				30 Jun 2009				31 Dec 2009			
	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
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>												
Intangible assets attributable to shareholders:												
Goodwill	-	-	235	235	-	-	80	80	-	-	80	80
Deferred acquisition costs and other intangible assets (note S)	-	-	942	942	-	-	648	648	-	-	822	822
<b>Total</b>	-	-	<b>1,177</b>	<b>1,177</b>	-	-	<b>728</b>	<b>728</b>	-	-	<b>902</b>	<b>902</b>
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
Investment accounted for using the equity method	-	-	5	5	-	-	-	-	-	-	2	2
Financial investments:												
Loans (note 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 (note 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
<b>Total investments</b>	<b>11,055</b>	<b>11,050</b>	<b>5,421</b>	<b>27,526</b>	<b>7,975</b>	<b>7,554</b>	<b>2,762</b>	<b>18,291</b>	<b>9,547</b>	<b>9,953</b>	<b>3,890</b>	<b>23,390</b>
Cash and cash equivalents	350	232	428	1,010	396	298	448	1,142	225	235	377	837
<b>Total assets</b>	<b>11,880</b>	<b>11,462</b>	<b>7,561</b>	<b>30,903</b>	<b>8,797</b>	<b>7,954</b>	<b>5,075</b>	<b>21,826</b>	<b>10,103</b>	<b>10,271</b>	<b>5,864</b>	<b>26,238</b>
<b>Equity and liabilities</b>												
<b>Equity</b>												
Shareholders' equity	-	-	1,992	1,992	-	-	1,576	1,576	-	-	1,462	1,462
Non-controlling interests	-	-	2	2	-	-	2	2	-	-	1	1
<b>Total equity</b>	-	-	<b>1,994</b>	<b>1,994</b>	-	-	<b>1,578</b>	<b>1,578</b>	-	-	<b>1,463</b>	<b>1,463</b>
<b>Liabilities</b>												
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
<b>Total</b>	<b>10,162</b>	<b>10,855</b>	<b>4,515</b>	<b>25,532</b>	<b>8,034</b>	<b>7,509</b>	<b>2,689</b>	<b>18,232</b>	<b>8,861</b>	<b>9,717</b>	<b>3,333</b>	<b>21,911</b>
Operational borrowings attributable to shareholders-financed operations												
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
<b>Total liabilities</b>	<b>11,880</b>	<b>11,462</b>	<b>5,567</b>	<b>28,909</b>	<b>8,797</b>	<b>7,954</b>	<b>3,497</b>	<b>20,248</b>	<b>10,103</b>	<b>10,271</b>	<b>4,401</b>	<b>24,775</b>
<b>Total equity and liabilities</b>	<b>11,880</b>	<b>11,462</b>	<b>7,561</b>	<b>30,903</b>	<b>8,797</b>	<b>7,954</b>	<b>5,075</b>	<b>21,826</b>	<b>10,103</b>	<b>10,271</b>	<b>5,864</b>	<b>26,238</b>

**Notes**

- (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'.

(iv) Asset management operations

	M&G	US	Asia	Total	Total	Total
	£m	£m	£m	30 Jun	130	131
	£m	£m	£m	2010	Jun	Dec
	£m	£m	£m	£m	2009	2009
<b>Assets</b>						
Intangible assets:						
Goodwill	1,153	16	61	1,230	0	0
Deferred acquisition costs	8	–	–	8	6	8
					1,23	1,23
<b>Total</b>	<b>1,161</b>	<b>16</b>	<b>61</b>	<b>1,238</b>	<b>6</b>	<b>8</b>
Other non-investment and non-cash assets	733	177	107	1,017	897	850
Financial investments:						
Loans (note U)	1,453	–	–	1,453	1,534	1,413
Equity securities and portfolio holdings in unit trusts	146	–	9	155	72	137
						1,16
Debt securities (note V)	1,450	–	16	1,466	978	4
Other investments (note (iii))	189	2	4	195	358	113
Deposits	37	3	14	54	22	63
<b>Total financial investments</b>	<b>3,275</b>	<b>5</b>	<b>43</b>	<b>3,323</b>	<b>2,964</b>	<b>2,890</b>
					1,54	
Cash and cash equivalents (note (iii))	925	36	115	1,076	6	970
					6,64	5,94
<b>Total assets</b>	<b>6,094</b>	<b>234</b>	<b>326</b>	<b>6,654</b>	<b>3</b>	<b>8</b>
<b>Equity and liabilities</b>						
<b>Equity</b>						
Shareholders' equity (note (i))	1,343	127	241	1,711	1,63	1,65
Non-controlling interests	3	–	–	3	7	9
					1	3
<b>Total equity</b>	<b>1,346</b>	<b>127</b>	<b>241</b>	<b>1,714</b>	<b>1,63</b>	<b>1,66</b>
					8	2
<b>Liabilities</b>						
Intra-group debt represented by operational borrowings at					2,39	2,03
Group level (note (ii))	2,564	–	–	2,564	2	8
Net asset value attributable to external holders of						
consolidated funds (note (iii))	398	–	–	398	524	410
					2,08	1,83
Other non-insurance liabilities	1,786	107	85	1,978	9	8
<b>Total liabilities</b>	<b>4,748</b>	<b>107</b>	<b>85</b>	<b>4,940</b>	<b>5,00</b>	<b>4,28</b>
					5	6
					6,64	5,94
<b>Total equity and liabilities</b>	<b>6,094</b>	<b>234</b>	<b>326</b>	<b>6,654</b>	<b>3</b>	<b>8</b>

**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
<b>Fair value of identifiable net assets acquired</b>	<b>75</b>

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**

	<b>30 June 2010</b>	<b>30 Jun</b>	<b>31 Dec</b>
	<b>£m</b>	<b>2009</b>	<b>2009</b>
		<b>£m</b>	<b>£m</b>
<b>Cost</b>			
<b>At the beginning of the period</b>	<b>1,430</b>	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 (note Q)	<b>145</b>	–	–
Exchange differences	<b>10</b>	–	–
<b>At the end of the period</b>	<b>1,585</b>	1,430	1,430
<b>Aggregate impairment</b>	<b>(120)</b>	(120)	(120)
<b>Net book amount at end of period</b>	<b>1,465</b>	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:

	<b>30 Jun 2010 £m</b>	<b>30 Jun 2009 £m</b>	<b>31 Dec 2009 £m</b>
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
	<b>4,028</b>	<b>4,045</b>	<b>4,049</b>
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
	<b>4,028</b>	<b>4,045</b>	<b>4,049</b>

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

	<b>Half year 2010 £m</b>	<b>Half year 2009 £m</b>	<b>Full year 2009 £m</b>
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	<b>4,028</b>	<b>4,045</b>	<b>4,049</b>

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

	<b>Half year 2010 £m</b>	<b>Half year 2009 £m</b>	<b>Full year 2009 £m</b>
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	<b>2,950</b>	<b>3,259</b>	<b>3,092</b>

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 8 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			30 Jun 2009			31 Dec 2009		
	At fair value £m	Cost / Amortised cost (note (ii)) £m	Total £m	At fair value £m	Cost / Amortised cost (note (ii)) £m	Total £m	At fair value £m	Cost / Amortised cost (note (ii)) £m	Total £m
Intangible assets attributable to shareholders:									
Goodwill (note R)	-	1,465	1,465	-	1,310	1,310	-	1,310	1,310
Deferred acquisition costs and other intangible assets (note S)	-	4,028	4,028	-	4,045	4,045	-	4,049	4,049
<b>Total</b>	-	<b>5,493</b>	<b>5,493</b>	-	<b>5,355</b>	<b>5,355</b>	-	<b>5,359</b>	<b>5,359</b>
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
<b>Total</b>	-	<b>234</b>	<b>234</b>	-	<b>270</b>	<b>270</b>	-	<b>230</b>	<b>230</b>
<b>Total</b>	-	<b>5,727</b>	<b>5,727</b>	-	<b>5,625</b>	<b>5,625</b>	-	<b>5,589</b>	<b>5,589</b>
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 (note 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
<b>Total</b>	-	<b>9,043</b>	<b>9,043</b>	-	<b>7,757</b>	<b>7,757</b>	-	<b>8,133</b>	<b>8,133</b>
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) and 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) and 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
<b>Total</b>	<b>203,488</b>	<b>19,111</b>	<b>222,599</b>	<b>162,032</b>	<b>17,425</b>	<b>179,457</b>	<b>187,142</b>	<b>21,580</b>	<b>208,722</b>
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
<b>Total assets</b>	<b>203,491</b>	<b>39,921</b>	<b>243,412</b>	<b>162,037</b>	<b>37,349</b>	<b>199,386</b>	<b>187,145</b>	<b>40,609</b>	<b>227,754</b>
Percentage of Group total assets	<b>84%</b>	<b>16%</b>	<b>100%</b>	<b>81%</b>	<b>19%</b>	<b>100%</b>	<b>82%</b>	<b>18%</b>	<b>100%</b>

### 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 standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.

- (iii) These assets comprise financial instruments requiring fair value valuation under IAS 39 with a value of £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 below 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.

#### **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 unitholders 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 derivative's 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: £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

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>With-profits</b>				
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 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%
<b>Unit-linked and variable annuity</b>				
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%
<b>Non-linked shareholder-backed</b>				
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%



	30 Jun 2010			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Group total</b>				
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)
<b>Total</b>	<b>92,835</b>	<b>75,820</b>	<b>4,570</b>	<b>173,225</b>
Percentage of total	53%	44%	3%	100%

31 Dec 2009

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>With-profits</b>				
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 liabilities without discretionary participation feature 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%
<b>Unit-linked and variable annuity</b>				
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 liabilities 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%
<b>Non-linked shareholder-backed</b>				
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 liabilities 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%
<b>Group total</b>				
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 liabilities 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:

	<b>30 Jun 2010</b>	<b>30 Jun 2009</b>	<b>31 Dec 2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Insurance operations			
UK (note (i))	<b>2,214</b>	1,689	1,815
US (note (ii))	<b>4,537</b>	4,295	4,319
Asia (note (iii))	<b>1,383</b>	1,095	1,207
Asset management operations			
M&G (note (iv))	<b>1,453</b>	1,534	1,413
<b>Total</b>	<b>9,587</b>	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 funds 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:

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

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
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
<b>Total</b>	<b>113,334</b>	<b>89,399</b>	<b>101,751</b>

(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	30 Jun 2010 Total £m	30 Jun 2009 Total £m	31 Dec 2009 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
<b>Total debt securities</b>	<b>4,930</b>	<b>28,061</b>	<b>12,907</b>	<b>40,968</b>	<b>5,628</b>	<b>17,998</b>	<b>2,548</b>	<b>72,072</b>	<b>59,231</b>	<b>67,772</b>

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.

Summary	30 Jun 2010 Carrying value £m	30 Jun 2009 Carrying value £m	31 Dec 2009 Carrying value £m
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
<b>Total debt securities</b>	<b>27,371</b>	<b>20,896</b>	<b>22,831</b>

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:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £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
	<b>22,184</b>	<b>17,253</b>	<b>17,879</b>
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
	<b>444</b>	<b>649</b>	<b>469</b>
Implicit ratings of RMBS based on NAIC valuations (see below)			
NAIC 1	810	–	747
NAIC 2	161	–	105
NAIC 3-6	319	–	473
<b>Total</b>	<b>1,290</b>	<b>–</b>	<b>1,325</b>
Fitch	262	239	281
Other*	3,191	2,755	2,877
<b>Total debt securities</b>	<b>27,371</b>	<b>20,896</b>	<b>22,831</b>

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 or Fitch, nor are RMBS securities using the revised regulatory ratings, have the following NAIC classifications:

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

(iii) Asia insurance operations

	With- profits business £m	Unit-linked business £m	Other business £m	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £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
	<b>5,112</b>	<b>1,402</b>	<b>2,801</b>	<b>9,315</b>	<b>5,712</b>	<b>6,948</b>
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
	<b>350</b>	<b>155</b>	<b>205</b>	<b>710</b>	<b>1,049</b>	<b>847</b>
Fitch	33	190	14	237	33	39
Other	495	949	719	2,163	1,500	2,150
Total debt securities	<b>5,990</b>	<b>2,696</b>	<b>3,739</b>	<b>12,425</b>	<b>8,294</b>	<b>9,984</b>

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) 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:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
<b>Shareholder-backed operations</b>			
<b>(excluding assets held in unit-linked funds):</b>			
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
	<b>8,459</b>	<b>7,117</b>	<b>8,805</b>
<b>With-profits operations:</b>			
UK insurance operations (note (i))	4,682	4,089	6,451
Asian insurance operations (note (iii))	429	261	378
	<b>5,111</b>	<b>4,350</b>	<b>6,829</b>
Total	<b>13,570</b>	<b>11,467</b>	<b>15,634</b>

## Notes

### (i) UK insurance operations

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

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £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
<b>Total</b>	<b>5,784</b>	<b>5,000</b>	<b>8,495</b>

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:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £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
<b>Total</b>	<b>6,921</b>	<b>5,867</b>	<b>6,376</b>

\* 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:

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

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:

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

## 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.

	30 Jun 2010 £m	Changes in unrealised appreciation** £m	Foreign exchange translation £m	31 Dec 2009 £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 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.

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

*(b) Unrealised losses by maturity of security*

	30 Jun 2010 £m	31 Dec 2009 £m
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			31 Dec 2009		
	Non investment grade £m	Investment grade £m	Total £m	Non investment grade £m	Investment grade £m	Total £m
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		31 Dec 2009	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
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		31 Dec 2009	
	Fair value £m	Unrealised loss £m	Fair value £m	Unrealised loss £m
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

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

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
<b>Operational borrowings attributable to shareholder-financed operations</b>			
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
<b>Total</b>	<b>3,234</b>	<b>2,855</b>	<b>2,751</b>
<b>Borrowings attributable to with-profits operations</b>			
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
<b>Total</b>	<b>1,313</b>	<b>1,349</b>	<b>1,284</b>

### Note

- (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:

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
<b>Economic position:</b>			
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)
<b>Economic deficit</b>	<b>(260)</b>	<b>(243)</b>	<b>(250)</b>
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	(198)	(161)	(187)
<b>Deficit under IAS 19 included in Provisions in the condensed statement of financial position</b>	<b>(458)</b>	<b>(404)</b>	<b>(437)</b>

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 were as follows:

	<b>30 Jun 2010</b>	<b>30 Jun 2009</b>	<b>31 Dec 2009</b>
	%	%	%
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.

(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				
	(Charge) credit to income statement				
	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	Surplus (deficit) in scheme at 30 June 2010 (note c)
	£m	£m	£m	£m	£m
<b>All schemes underlying position (without the effect of IFRIC 14)</b>					
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)
<b>Effect of IFRIC 14</b>					
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)
<b>With the effect of IFRIC 14</b>					
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:

	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£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 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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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)
	<b>(23)</b>	<b>(23)</b>	<b>(48)</b>

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:

	Half year 2010 £m	Half year 2009 £m	Full year 2009 £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	<b>(265)</b>	<b>(353)</b>	<b>(337)</b>
Effect of IFRIC 14 for pension schemes	<b>234</b>	<b>219</b>	<b>182</b>
Actuarial and other gains and losses after the effect of IFRIC 14	<b>(31)</b>	<b>(134)</b>	<b>(155)</b>

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 of 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:

	30 Jun 2010	30 Jun 2009	31 Dec 2009
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	<b>5,640</b>	4,997	5,512
Present value of benefit obligations	<b>(5,526)</b>	(4,680)	(5,174)
	<b>114</b>	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	<b>(260)</b>	(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)

(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 assumption.

**30 Jun 2010**

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

**30 Jun 2009**

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

**31 Dec 2009**

<b>Assumption</b>	<b>Change in assumption</b>	<b>Impact on scheme liabilities on IAS 19 basis</b>	
<b>Discount rate</b>	<b>Decrease by 0.2% from 5.8% to 5.6%</b>	<b>Increase in scheme liabilities by:</b>	
		PSPS	3.5%
		Scottish Amicable	5.2%
<b>Discount rate</b>	<b>Increase by 0.2% from 5.8% to 6.0%</b>	<b>Decrease in scheme liabilities by:</b>	
		PSPS	3.2%
		Scottish Amicable	4.8%
<b>Rate of inflation</b>	<b>Decrease by 0.2% from 3.7% to 3.5% with consequent reduction in salary increases</b>	<b>Decrease in scheme liabilities by:</b>	
		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
<b>At 1 January 2010</b>	126,195	48,311	21,911	<b>196,417</b>
Premiums	3,359	5,656	2,068	<b>11,083</b>
Surrenders	(2,060)	(1,767)	(858)	<b>(4,685)</b>
Maturities/Deaths	(3,546)	(418)	(206)	<b>(4,170)</b>
Net cash flows	(2,247)	3,471	1,004	<b>2,228</b>
Shareholders transfers post tax	(111)	–	(12)	<b>(123)</b>
Investment-related items and other movements	4,870	(424)	(250)	<b>4,196</b>
Foreign exchange translation differences	(513)	3,895	1,911	<b>5,293</b>
Acquisition of UOB Life Assurance Limited	–	–	968	<b>968</b>
<b>At 30 June 2010</b>	<b>128,194</b>	<b>55,253</b>	<b>25,532</b>	<b>208,979</b>

	Insurance operations			
	UK £m	US £m	Asia £m	Total £m
<b>At 1 January 2009</b>	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)
<b>At 30 June 2009</b>	<b>112,384</b>	<b>41,492</b>	<b>18,232</b>	<b>172,108</b>

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).

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

	SAIF and PAC with- profits sub- fund	Other funds and subsidiaries		Total
		Unit-linked liabilities	Annuity and other long-term business	
	£m	£m	£m	£m
<b>At 1 January 2009</b>	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)
<b>At 30 June 2009</b>	<b>78,318</b>	<b>16,278</b>	<b>17,788</b>	<b>112,384</b>

**Notes**

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

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
<b>At 1 January 2009</b>	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)
<b>At 30 June 2009</b>	<b>14,512</b>	<b>26,980</b>	<b>41,492</b>

**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.

(iii) Asian insurance operations

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

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
<b>At 1 January 2009</b>	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)
<b>At 30 June 2009</b>	<b>8,034</b>	<b>7,509</b>	<b>2,689</b>	<b>18,232</b>

**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)
<b>At 30 June 2010</b>	<b>2,539,204,415</b>	<b>127</b>	<b>1,856</b>

	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)
<b>At 30 June 2009</b>	<b>2,523,718,245</b>	<b>126</b>	<b>1,840</b>

	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)
<b>At 31 December 2009</b>	<b>2,532,227,471</b>	<b>127</b>	<b>1,843</b>

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 (half year 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: 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

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## AF Analysis of long-term insurance pre-tax IFRS operating profit by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

- (i) Investment spread - this represents the difference between investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts.
- (ii) Asset management fees - this represents profits driven by investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses and profits derived from spread.
- (iii) Net expense margin – this represents expenses charged to the profit and loss account (excluding those borne by the with-profits fund and those products where earnings are purely protection driven) including amounts relating to movements in deferred acquisition costs, net of any fees or premium loadings related to expenses. Jackson DAC amortisation (net of hedging effects), which is intended to be part of the expense margin, has been separately highlighted in the table below.
- (iv) Insurance margin - profits derived from the insurance risks of mortality, morbidity and persistency including fees earned on variable annuity guarantees.
- (v) With-profits business - shareholders' transfer from the with-profits fund in the period.
- (vi) Other represents a mixture of other income and expenses that are not directly allocated to the underlying drivers, including non-recurring items e.g. Malaysia RBC credit.

### Analysis of Group pre-tax IFRS operating profit by driver

An analysis of Group pre-tax IFRS operating profit has also been provided and is based on the long-term insurance operation tables below with the following additions:

- The results of Group asset management operations have been included within asset management fees.
- UK general insurance commission of £23 million (half year 2009: £27 million; full year 2009: £51 million) has been included within the other income line.
- Group Head Office (GHO) expenses consist of other operating income and expenditure and all unallocated restructuring costs and Solvency II implementation costs.

### IFRS operating profit

	Half year 2010			Half year 2009 £m	Full year 2009 £m
	Long-term business £m	Non long-term business £m	Group total £m		
Investment spread	571	–	571	514	1,001
Asset management fees	321	194	515	328	755
Net expense margin	(205)	–	(205)	(209)	(388)
DAC amortisation (Jackson only) (note (ii))					
Underlying	(199)	–	(199)	(148)	(262)
(Acceleration)/deceleration	(67)	–	(67)	(12)	39
Net Insurance margin	309	–	309	217	472
With-profits business	171	–	171	158	310
Non-recurrent release of reserve for Malaysia					
Life operation	–	–	–	63	63
Other	(8)	23	15	(9)	(8)
Net equity hedge gains (losses) within Jackson (note (i))	123	–	123	(23)	(159)
GHO expenses	–	(265)	(265)	(191)	(418)
<b>Total</b>	<b>1,016</b>	<b>(48)</b>	<b>968</b>	<b>688</b>	<b>1,405</b>

## Analysis of pre-tax IFRS operating profit by driver by long-term business unit

	Half year 2010			Total £m
	Asia	US	UK	
	£m	£m	£m	
Investment spread	42	402	127	571
Asset management fees	52	240	29	321
Net expense margin	(51)	(150)	(4)	(205)
DAC amortisation (Jackson only) (note(ii))				
Underlying	–	(199)		(199)
Acceleration	–	(67)		(67)
Net insurance margin	202	121	(14)	309
With-profits business	17	-	154	171
Other	(3)	(20)	15	(8)
Net equity hedge gains within Jackson (note (i))	–	123	–	123
<b>Total</b>	<b>259</b>	<b>450</b>	<b>307</b>	<b>1,016</b>

	Half year 2009			Total £m
	Asia	US	UK	
	£m	£m	£m	
Investment spread	35	314	165	514
Asset management fees	34	142	27	203
Net expense margin	(68)	(105)	(36)	(209)
DAC amortisation (Jackson only) (note(ii))				
Underlying	–	(148)	–	(148)
Acceleration	–	(12)	–	(12)
Net insurance margin	137	97	(17)	217
With-profits business	11	–	147	158
Non-recurrent release of reserves for Malaysia Life operations	63	–	–	63
Other	(5)	(48)	17	(36)
Net equity hedge losses within Jackson (note (i))	–	(23)	–	(23)
<b>Total</b>	<b>207</b>	<b>217</b>	<b>303</b>	<b>727</b>

	Full year 2009			Total £m
	Asia	US	UK	
	£m	£m	£m	
Investment spread	56	622	323	1,001
Asset management fees	80	324	54	458
Net expense margin	(65)	(227)	(96)	(388)
DAC amortisation (Jackson only) (note (ii))	-			
Underlying	–	(262)	–	(262)
Deceleration	–	39	–	39
Net insurance margin	253	178	41	472
With-profits business	29	-	281	310
Non-recurrent release of reserves for Malaysia Life operations	63	-	-	63
Other	(6)	(56)	3	(59)
Net equity hedge losses within Jackson (note (i))	–	(159)	–	(159)
<b>Total</b>	<b>410</b>	<b>459</b>	<b>606</b>	<b>1,475</b>

## Notes

- (i) Net equity hedge gains/losses within Jackson, being the movement in operating derivatives in the period and associated DAC amortisation and policyholder liability movements, were £123 million positive in the first half of 2010, compared with £(23) million negative in the first half of 2009 and £(159) million negative for full year 2009. These gains and losses, which are variable in nature, reflect the difference between the value movement included in operating profit on free standing derivatives held to manage equity risk, and the accounting charge for movements in liabilities for guarantees in Jackson's variable and fixed index annuity products. For Guaranteed Minimum Death Benefit (GMDB) and "for life" Guaranteed Minimum Withdrawal Benefit (GMWB) features the liabilities are not fair valued for accounting purposes but are reported pursuant to the US GAAP measurement basis applied for IFRS reporting.
- (ii) The DAC amortisation of Jackson shown on the tables on the preceding page reflects the charge to the operating results excluding the amount related to the net hedge results described in note (i) above. The Jackson amortisation change each period incorporates an element of acceleration or deceleration that reflects the variance between the actual level of return attained and the level assumed as part of the Group's accounting methodology. The acceleration arising in half year 2010 and half year 2009 reflects asset value shortfalls in the period compared with the assumed level of 15 per cent for the year. For full year 2009 the deceleration of £39 million arises as the actual return exceeded the 15 per cent assumed level. See note S.
- (iii) 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 agency business for which the sale process was completed in June 2009 are included separately within the analysis of profit. Only the operating profit based on longer-term investments of the retained bancassurance business in Taiwan is included in the analysis above.

## AG Asian operations – analysis of operating profit by territory

Operating profit (loss) based on longer-term investment returns for Asian operations are analysed as follows:

	Half year 2010	Half year 2009	Full year 2009
	£m	£m	£m
China (note (ii))	(11)	1	4
Hong Kong	27	25	48
India (note (iii))	51	(4)	12
Indonesia	70	42	102
Japan	(2)	(5)	(18)
Korea	6	(6)	6
Malaysia			
– underlying results	45	32	65
– Exceptional credit for Malaysia operations (note (i))	-	63	63
Philippines	1	1	2
Singapore	56	51	112
Taiwan bancassurance business (note (iv))	-	(3)	(7)
Thailand	(1)	1	(1)
Vietnam	21	14	30
Prudential Services Asia	(1)	–	(2)
<b>Total insurance operations</b> (note(v))	<b>262</b>	<b>212</b>	<b>416</b>
Development expenses	(3)	(5)	(6)
<b>Total long-term business operating profit</b>	<b>259</b>	<b>207</b>	<b>410</b>
Asset management	36	21	55
<b>Total Asian operations</b>	<b>295</b>	<b>228</b>	<b>465</b>

### Notes

- (i) For the Malaysia life business, under the basis applied previously, 2008 IFRS basis liabilities were determined on the local regulatory basis using prescribed interest rates such that a high degree of prudence resulted. As of 1 January 2009, the local regulatory basis has been replaced by the Malaysian authority's risk-based capital (RBC) framework. In the light of this development; the Company has re-measured the liabilities by reference to the method applied under the new RBC framework, which is more realistic than the previous approach, but with an overlay constraint to the method such that negative reserves derived at an individual policyholder level are not included. This change has resulted in a one-off release from liabilities at 1 January 2009 of £63 million.
- (ii) China's operating loss of £11 million is after a net charge of £17 million for local reserving changes and associated impacts that have been reflected in the Group's IFRS accounts.
- (iii) The operating profit of £51 million from India, a joint venture, includes £36 million arising from changes that improve the reserving estimation technique.
- (iv) 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 agency business for which the sale process was completed in June 2009 are included separately within the analysis of profit. Only the operating profit based on longer-term investments of the retained bancassurance business in Taiwan is included in the analysis above.

(v) Analysis of operating profit between new and in-force business

The result for insurance operations comprises amounts in respect of new business and business in-force as follows:

	<b>Half year 2010 £m</b>	<b>Half year 2009 £m</b>	<b>Full year 2009 £m</b>
New business strain (excluding Japan)	(42)	(45)	(72)
Japan	(1)	(2)	(6)
New business strain (including Japan)	(43)	(47)	(78)
Business in force	305	259	494
Total	262	212	416

The strain represents the aggregate of the pre-tax regulatory basis strain to net worth and IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

## AH Shareholders' funds summary by business unit and net asset value per share

### (i) Shareholders' fund summary

	30 Jun 2010 £m	30 Jun 2009 £m	31 Dec 2009 £m
<b>Asian operations</b>			
Insurance operations			
Net assets of operation	1,757	1,496	1,382
Acquired goodwill	235	80	80
Total	1,992	1,576	1,462
Asset management			
Net assets of operation	180	144	161
Acquired goodwill	61	61	61
Total	241	205	222
<b>Total</b>	<b>2,233</b>	<b>1,781</b>	<b>1,684</b>
<b>US operations</b>			
Jackson (net of surplus note borrowings)	3,905	2,046	3,011
Broker-dealer, asset management and Curian operations:			
Net assets of operation	111	85	95
Acquired goodwill	16	16	16
Total	127	101	111
<b>Total</b>	<b>4,032</b>	<b>2,147</b>	<b>3,122</b>
<b>UK operations</b>			
Insurance operations:			
Long-term business operations	1,920	1,730	1,902
Other	17	19	37
Total	1,937	1,749	1,939
M&G			
Net assets of operation	190	178	173
Acquired goodwill	1,153	1,153	1,153
Total	1,343	1,331	1,326
<b>Total</b>	<b>3,280</b>	<b>3,080</b>	<b>3,265</b>
<b>Other operations</b>			
Holding company net borrowings	(2,293)	(1,495)	(1,754)
Shareholders' share of deficit of the Prudential Staff Pension Scheme (net of tax) (note (a))	(13)	(69)	(16)
Other net liabilities	(78)	(724)	(30)
<b>Total</b>	<b>(2,384)</b>	<b>(2,288)</b>	<b>(1,800)</b>
<b>Total of all operations</b>	<b>7,161</b>	<b>4,720</b>	<b>6,271</b>

#### Note

(a) The half year 2009 comparatives also included the shareholders' share of the deficit of Scottish Amicable Pension Scheme which is included within UK Insurance Operations from full year 2009 onwards.

### (ii) Net asset value per share

	30 Jun 2010	30 Jun 2009	31 Dec 2009
Closing equity shareholders' funds (£m)	7,161	4,720	6,271
Net asset value per share attributable to equity shareholders (in pence) (note (i))	282p	187p	248p

#### Note

(i) Based on the closing issued share capital as at 30 June 2010 of 2,539 million shares (30 June 2009: 2,524 million shares; 31 December 2009: 2,532 million shares).



## AI Funds under management

### (i) Summary

	<b>30 Jun 2010</b>	<b>30 Jun 2009</b>	<b>31 Dec 2009</b>
	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>
Business area			
Asian operations	27.8	18.3	23.7
US operations	58.7	42.0	49.6
UK operations	136.3	119.4	135.6
Internal funds under management (note (i))	222.8	179.7	208.9
External funds (note (ii))	86.5	64.9	80.9
<b>Total funds under management</b>	<b>309.3</b>	<b>244.6</b>	<b>289.8</b>

### Note

(i) Internal funds under management – analysis by business area

	Asian operations			US operations			UK operations			Group total *		
	30 Jun 2010	30 Jun 2009	31 Dec 2009	30 Jun 2010	30 Jun 2009	31 Dec 2009	30 Jun 2010	30 Jun 2009	31 Dec 2009	30 Jun 2010	30 Jun 2009	31 Dec 2009
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Investment properties	–	–	–	0.1	0.1	0.1	11.4	10.6	11.0	11.5	10.7	11.1
Equity securities	12.5	8.2	11.4	24.6	15.0	21.0	34.6	32.9	37.0	71.7	56.1	69.4
Debt securities	12.4	8.3	10.0	27.4	20.9	22.8	73.5	60.2	69.1	113.3	89.4	101.9
Loans	1.4	1.1	1.2	4.5	4.3	4.3	3.7	3.2	3.3	9.6	8.6	8.8
Other investments and deposits	1.5	0.7	1.1	2.1	1.7	1.4	13.1	12.5	15.2	16.7	14.9	17.7
<b>Total</b>	<b>27.8</b>	<b>18.3</b>	<b>23.7</b>	<b>58.7</b>	<b>42.0</b>	<b>49.6</b>	<b>136.3</b>	<b>119.4</b>	<b>135.6</b>	<b>222.8</b>	<b>179.7</b>	<b>208.9</b>

\* As included in the investments section of the consolidated statement of financial position at 30 June 2010 except for £0.2 billion (half year 2009: £0.2 billion; full year 2009: £0.2 billion) investment properties which are held-for-sale or occupied by the Group and, accordingly under IFRS, are included in other statement of financial position captions.

(ii) External funds shown above for 2010 of £86.5 billion (half year 2009: £64.9 billion; full year 2009: £80.9 billion) comprise £96.0 billion (half year 2009: £72.3 billion; full year 2009: £89.8 billion) in respect of investment products, as published in the half year 2010 New Business schedules (see note AK5) less £9.5 billion (half year 2009: £7.4 billion; full year 2009: £8.9 billion) that are classified within internal funds.

## AJ Foreign currency translation

### (i) Rates of exchange

The profit and loss accounts of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Foreign currency borrowings that have been used to provide a hedge against Group equity investments in overseas subsidiaries are also translated at closing exchange rates. The impact of these translations is recorded as a component of the movement in shareholders' equity.

The following translation rates have been applied:

Local currency: £	Closing Half year 2010	Average Half year 2010	Closing Half year 2009	Average Half year 2009	Closing Full year 2009	Average Full year 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
USA	1.50	1.53	1.65	1.49	1.61	1.57

(ii) Effect of rate movements on results

	As published Half year 2010	Memorandum Half year 2009 (note (i))	Memorandum Full year 2009 (notes (i) and (ii))
<b>EEV basis results</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Asian operations:			
New business:			
Excluding Japan	396	303	784
Japan	(1)	(10)	(13)
Total	395	293	771
Business in force	241	125	420
Long-term operations	636	418	1,191
Asset management	36	21	58
Development expenses	(3)	(5)	(6)
Total Asia operations	669	434	1,243
US operations:			
New business	361	286	682
Business in force	306	204	584
Jackson	667	490	1,266
Broker-dealer and asset management	15	2	4
Total US operations	682	492	1,270
UK operations:			
New business	135	122	230
Business in force	314	284	640
Long-term business	449	406	870
General insurance commission	23	27	51
Total insurance	472	433	921
M&G	143	102	238
Total UK operations	615	535	1,159
Other income and expenditure	(262)	(195)	(433)
Solvency II implementation costs	(22)	-	-
Restructuring costs	(5)	(14)	(27)
Operating profit from continuing operations on longer-term investment returns	1,677	1,252	3,212
Shareholders' funds	16,672	14,706	16,030

	As published Half year 2010	Memorandum Half year 2009 (note (i))	Memorandum Full year 2009 (notes (i) and (ii))
<b>IFRS basis results</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Asian operations:			
Long-term operations	262	224	452
Asset management	36	21	58
Development expenses	(3)	(5)	(6)
<b>Total Asia operations</b>	<b>295</b>	<b>240</b>	<b>504</b>
US operations:			
Jackson	450	212	471
Broker-dealer and asset management	15	2	4
<b>Total US operations</b>	<b>465</b>	<b>214</b>	<b>475</b>
UK operations:			
Long-term business	307	303	606
General insurance commission	23	27	51
<b>Total UK insurance operations</b>	<b>330</b>	<b>330</b>	<b>657</b>
M&G	143	102	238
<b>Total UK operations</b>	<b>473</b>	<b>432</b>	<b>895</b>
<b>Total segment profit</b>	<b>1,233</b>	<b>886</b>	<b>1,874</b>
<b>Other income and expenditure</b>	<b>(240)</b>	<b>(179)</b>	<b>(395)</b>
Solvency II implementation costs	(22)	–	–
Restructuring costs	(3)	(12)	(23)
<b>Operating profit from continuing operations on longer-term investment returns</b>	<b>968</b>	<b>695</b>	<b>1,456</b>
<b>Shareholders' funds</b>	<b>7,161</b>	<b>4,974</b>	<b>6,539</b>

#### Notes

- (i) The 'as published' operating profit for 2010 and 'memorandum' operating profit for 2009 have been calculated by applying average 2010 exchange rates (CER).  
The 'as published' shareholders' funds for 2010 and memorandum' shareholders' funds for 2009 have been calculated by applying closing period end 2010 exchange rates.
- (ii) The 2009 operating profit of Asian long-term operations excludes the results of the Taiwan agency business for which the sale process was completed in June 2009.

## **AK New Business Schedules**

### **BASIS OF PREPARATION**

The new business schedules 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.

The format of the schedules is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. 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 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.

New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

Investment products referred to in the tables for funds under management are unit trusts, 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.

### **Notes to Schedules AK1 – AK5**

- (1a) Insurance and investment new business for overseas operations has been calculated using average exchange rates. The applicable rate for Jackson is 1.53.
- (1b) Insurance and investment new business for overseas operations for 2009 has been calculated using constant exchange rates. The applicable rate for Jackson is 1.53.
- (2) Represents cash received from sale of investment products.
- (3) Annual Equivalents, calculated as regular new business contributions plus ten per cent of single new business contributions, are subject to roundings. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business. In determining the present value, allowance is made for lapses and other assumptions applied in determining the EEV new business profit.
- (4) Balance includes segregated and pooled pension funds, private finance assets and other institutional clients. Other movements reflect the net flows arising from the cash component of a tactical asset allocation fund managed by PPM South Africa.
- (5) New business in India is included at Prudential's 26 per cent interest in the India life operation.
- (6) Balance Sheet figures have been calculated at the closing exchange rate. Prior year balance is shown on a constant exchange rate.
- (7) Sales are converted using the year to date average exchange rate applicable at the time. The sterling results for individual quarters represent the difference between the year to date reported sterling results at successive quarters and will include foreign exchange movements from earlier periods.
- (8) New business in China is included at Prudential's 50 per cent interest in the China life operation.
- (9) Mandatory Provident Fund (MPF) product sales in Hong Kong are included at Prudential's 36 per cent interest in Hong Kong MPF operation.

**Schedule AK1 – Reported Exchange Rates  
Prudential plc – New Business –Half Year 2010  
INSURANCE OPERATIONS**

	Single			Regular			Annual Equivalents <sup>(3)</sup>			PVNBP		
	Half year 2010 YTD	Half year 2009 YTD	+/- (%)	Half year 2010 YTD	Half year 2009 YTD	+/- (%)	Half year 2010 YTD	Half year 2009 YTD	+/- (%)	Half year 2010 YTD	Half year 2009 YTD	+/- (%)
	£m	£m		£m	£m		£m	£m		£m	£m	
<b>Group Insurance Operations</b>												
Asia – ex Japan <sup>(1a)</sup>	430	327	31%	670	492	36%	713	524	36%	3,316	2,551	30%
US <sup>(1a)</sup>	5,493	3,798	45%	11	12	(8%)	560	392	43%	5,569	3,889	43%
UK	2,438	2,451	(1%)	138	131	5%	382	376	2%	3,081	3,062	1%
<b>Group Total – ex Japan</b>	<b>8,361</b>	<b>6,576</b>	<b>27%</b>	<b>819</b>	<b>635</b>	<b>29%</b>	<b>1,655</b>	<b>1,292</b>	<b>28%</b>	<b>11,966</b>	<b>9,502</b>	<b>26%</b>
Japan	8	38	(79%)	6	25	(76%)	7	29	(76%)	34	155	(78%)
<b>Group Total</b>	<b>8,369</b>	<b>6,614</b>	<b>27%</b>	<b>825</b>	<b>660</b>	<b>25%</b>	<b>1,662</b>	<b>1,321</b>	<b>26%</b>	<b>12,000</b>	<b>9,657</b>	<b>24%</b>
<b>Asian Insurance Operations<sup>(1a)</sup></b>												
Hong Kong	31	31	0%	127	92	38%	130	95	37%	746	582	28%
Indonesia	39	13	200%	125	82	52%	129	83	55%	464	282	65%
Malaysia	20	33	(39%)	75	49	53%	77	52	48%	406	295	38%
Philippines	23	3	667%	8	4	100%	10	4	150%	42	14	200%
Singapore	147	115	28%	60	40	50%	75	52	44%	573	409	40%
Thailand	8	5	60%	12	8	71%	13	8	63%	45	25	80%
Vietnam	–	–	0%	18	15	20%	18	15	20%	65	55	18%
<b>SE Asia Operations inc. Hong Kong</b>	<b>268</b>	<b>200</b>	<b>34%</b>	<b>425</b>	<b>290</b>	<b>47%</b>	<b>452</b>	<b>310</b>	<b>46%</b>	<b>2,341</b>	<b>1,662</b>	<b>41%</b>
China <sup>(8)</sup>	60	43	40%	21	17	24%	27	21	29%	161	125	29%
India <sup>(5)</sup>	32	32	0%	116	73	59%	119	76	57%	329	272	21%
Korea	24	20	20%	43	64	(33%)	45	66	(32%)	226	314	(28%)
Taiwan	46	32	44%	65	48	35%	70	51	37%	259	178	46%
<b>Total Asia Operations - ex Japan</b>	<b>430</b>	<b>327</b>	<b>31%</b>	<b>670</b>	<b>492</b>	<b>36%</b>	<b>713</b>	<b>524</b>	<b>36%</b>	<b>3,316</b>	<b>2,551</b>	<b>30%</b>
<b>US Insurance Operations<sup>(1a)</sup></b>												
Fixed Annuities	416	701	(41%)	-	-	0%	42	69	(40%)	416	701	(41%)
Fixed Index Annuities	600	575	4%	-	-	0%	60	58	3%	600	575	4%
Life	5	5	0%	11	12	(8%)	11	13	(8%)	81	96	(16%)
Variable Annuities	4,472	2,517	78%	-	-	0%	447	252	77%	4,472	2,517	78%
<b>Total US Insurance Operations</b>	<b>5,493</b>	<b>3,798</b>	<b>45%</b>	<b>11</b>	<b>12</b>	<b>(8%)</b>	<b>560</b>	<b>392</b>	<b>43%</b>	<b>5,569</b>	<b>3,889</b>	<b>43%</b>
<b>UK &amp; Europe Insurance Operations</b>												
Direct and Partnership Annuities	362	273	33%	-	-	0%	36	27	33%	362	273	33%
Intermediated Annuities	119	140	(15%)	-	-	0%	12	14	(14%)	119	140	(15%)
Internal Vesting Annuities	637	726	(12%)	-	-	0%	64	73	(12%)	637	726	(12%)
<b>Total Individual Annuities</b>	<b>1,118</b>	<b>1,139</b>	<b>(2%)</b>	<b>-</b>	<b>-</b>	<b>0%</b>	<b>112</b>	<b>114</b>	<b>(2%)</b>	<b>1,118</b>	<b>1,139</b>	<b>(2%)</b>
Corporate Pensions	159	115	38%	106	103	3%	122	115	6%	613	571	7%
On-shore Bonds	688	758	(9%)	-	-	0%	69	76	(9%)	689	759	(9%)
Other Products	462	419	10%	32	28	14%	78	70	11%	650	573	13%
Wholesale	11	20	(45%)	-	-	0%	1	2	(50%)	11	20	(45%)
<b>Total UK &amp; Europe Insurance Ops</b>	<b>2,438</b>	<b>2,451</b>	<b>(1%)</b>	<b>138</b>	<b>131</b>	<b>5%</b>	<b>382</b>	<b>376</b>	<b>2%</b>	<b>3,081</b>	<b>3,062</b>	<b>1%</b>
<b>Group Total – ex Japan</b>	<b>8,361</b>	<b>6,576</b>	<b>27%</b>	<b>819</b>	<b>635</b>	<b>29%</b>	<b>1,655</b>	<b>1,292</b>	<b>28%</b>	<b>11,966</b>	<b>9,502</b>	<b>26%</b>

**Schedule AK2 – Current Exchange Rates**  
**Prudential plc – New Business –Half Year 2010**  
**INSURANCE OPERATIONS**

	Single			Regular			Annual Equivalents <sup>(3)</sup>			PVNBP		
	Half year 2010 YTD	Half year 2009 YTD	+/- (%)	Half year 2010 YTD	Half year 2009 YTD	+/- (%)	Half year 2010 YTD	Half year 2009 YTD	+/- (%)	Half year 2010 YTD	Half year 2009 YTD	+/- (%)
	£m	£m		£m	£m		£m	£m		£m	£m	
<b>Group Insurance Operations</b>												
Asia – ex Japan <sup>(1b)</sup>	430	340	26%	670	521	29%	713	555	28%	3,316	2,681	24%
US <sup>(1b)</sup>	5,493	3,716	48%	11	12	(8%)	560	383	46%	5,569	3,807	46%
UK	2,438	2,451	(1%)	138	131	5%	382	376	2%	3,081	3,062	1%
<b>Group Total – ex Japan</b>	<b>8,361</b>	<b>6,507</b>	<b>28%</b>	<b>819</b>	<b>664</b>	<b>23%</b>	<b>1,655</b>	<b>1,314</b>	<b>26%</b>	<b>11,966</b>	<b>9,550</b>	<b>25%</b>
Japan <sup>(1b)</sup>	8	39	(79%)	6	26	(77%)	7	30	(77%)	33	158	(79%)
<b>Group Total</b>	<b>8,369</b>	<b>6,546</b>	<b>28%</b>	<b>825</b>	<b>690</b>	<b>20%</b>	<b>1,662</b>	<b>1,344</b>	<b>24%</b>	<b>11,999</b>	<b>9,708</b>	<b>24%</b>
<b>Asian Insurance Operations<sup>(1b)</sup></b>												
Hong Kong	31	30	3%	127	89	43%	130	92	41%	746	569	31%
Indonesia	39	15	160%	125	96	30%	129	98	32%	464	331	40%
Malaysia	20	35	(43%)	75	52	44%	77	56	38%	406	313	30%
Philippines	23	3	667%	8	4	100%	10	4	150%	42	14	200%
Singapore	147	120	23%	60	42	43%	75	54	39%	573	427	34%
Thailand	8	5	60%	12	8	50%	13	9	44%	45	26	73%
Vietnam	-	-	0%	18	14	29%	18	14	29%	65	50	30%
<b>SE Asia Operations inc. Hong Kong</b>	<b>268</b>	<b>208</b>	<b>29%</b>	<b>425</b>	<b>305</b>	<b>39%</b>	<b>452</b>	<b>327</b>	<b>39%</b>	<b>2,341</b>	<b>1,730</b>	<b>35%</b>
China <sup>(8)</sup>	60	42	43%	21	17	24%	27	21	29%	161	123	31%
India <sup>(5)</sup>	32	34	(6%)	116	77	51%	119	80	49%	329	287	15%
Korea	24	23	4%	43	73	(41%)	45	75	(40%)	226	358	(37%)
Taiwan	46	33	39%	65	49	33%	70	52	35%	259	183	42%
<b>Total Asia Operations - ex Japan</b>	<b>430</b>	<b>340</b>	<b>26%</b>	<b>670</b>	<b>521</b>	<b>29%</b>	<b>713</b>	<b>555</b>	<b>28%</b>	<b>3,316</b>	<b>2,681</b>	<b>24%</b>
<b>US Insurance Operations<sup>(1b)</sup></b>												
Fixed Annuities	416	686	(39%)	-	-	0%	42	69	(39%)	416	686	(39%)
Fixed Index Annuities	600	563	7%	-	-	0%	60	56	7%	600	563	7%
Life	5	3	67%	11	12	(8%)	11	12	(8%)	81	94	(14%)
Variable Annuities	4,472	2,464	81%	-	-	0%	447	246	82%	4,472	2,464	81%
<b>Total US Insurance Operations</b>	<b>5,493</b>	<b>3,716</b>	<b>48%</b>	<b>11</b>	<b>12</b>	<b>(8%)</b>	<b>560</b>	<b>383</b>	<b>46%</b>	<b>5,569</b>	<b>3,807</b>	<b>46%</b>
<b>UK &amp; Europe Insurance Operations</b>												
Direct and Partnership Annuities	362	273	33%	-	-	0%	36	27	33%	362	273	33%
Intermediated Annuities	119	140	(15%)	-	-	0%	12	14	(14%)	119	140	(15%)
Internal Vesting Annuities	637	726	(12%)	-	-	0%	64	73	(12%)	637	726	(12%)
<b>Total Individual Annuities</b>	<b>1,118</b>	<b>1,139</b>	<b>(2%)</b>	<b>-</b>	<b>-</b>	<b>0%</b>	<b>112</b>	<b>114</b>	<b>(2%)</b>	<b>1,118</b>	<b>1,139</b>	<b>(2%)</b>
Corporate Pensions	159	115	38%	106	103	3%	122	115	6%	613	571	7%
On-shore Bonds	688	758	(9%)	-	-	0%	69	76	(9%)	689	759	(9%)
Other Products	462	419	10%	32	28	14%	78	70	11%	650	573	13%
Wholesale	11	20	(45%)	-	-	0%	1	2	(50%)	11	20	(45%)
<b>Total UK &amp; Europe Insurance Ops</b>	<b>2,438</b>	<b>2,451</b>	<b>(1%)</b>	<b>138</b>	<b>131</b>	<b>5%</b>	<b>382</b>	<b>376</b>	<b>2%</b>	<b>3,081</b>	<b>3,062</b>	<b>1%</b>
<b>Group Total – ex Japan</b>	<b>8,361</b>	<b>6,507</b>	<b>28%</b>	<b>819</b>	<b>664</b>	<b>23%</b>	<b>1,655</b>	<b>1,314</b>	<b>26%</b>	<b>11,966</b>	<b>9,550</b>	<b>25%</b>

**Schedule AK3 - Reported Exchange Rates**  
**PRUDENTIAL PLC - NEW BUSINESS – Q2 2010**  
**TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER**

	2009				2010	
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m
<b>Group Insurance Operations</b>						
Asia – ex Japan <sup>(1a)(7)</sup>	276	248	282	403	359	<b>354</b>
US <sup>(1a)(7)</sup>	184	208	249	272	255	<b>305</b>
UK	180	197	158	189	193	<b>189</b>
<b>Group Total - ex Japan</b>	<b>640</b>	<b>652</b>	<b>689</b>	<b>864</b>	<b>807</b>	<b>848</b>
Japan <sup>(1a)(7)</sup>	17	12	11	12	7	<b>0</b>
<b>Group Total</b>	<b>656</b>	<b>664</b>	<b>700</b>	<b>876</b>	<b>814</b>	<b>848</b>
<b>Asian Insurance Operations<sup>(1a)(7)</sup></b>						
Hong Kong	46	49	55	91	68	<b>62</b>
Indonesia	38	46	43	64	61	<b>68</b>
Malaysia	24	29	32	62	36	<b>41</b>
Philippines	2	2	3	4	5	<b>5</b>
Singapore	22	30	29	48	33	<b>42</b>
Thailand	4	3	4	4	5	<b>8</b>
Vietnam	5	9	9	11	8	<b>10</b>
<b>SE Asia Operations inc. Hong Kong</b>	<b>141</b>	<b>168</b>	<b>175</b>	<b>284</b>	<b>216</b>	<b>236</b>
China <sup>(8)</sup>	11	11	13	11	14	<b>13</b>
India <sup>(5)</sup>	56	20	40	52	73	<b>46</b>
Korea	37	29	30	26	22	<b>24</b>
Taiwan	31	20	26	30	34	<b>35</b>
<b>Total Asian Insurance Operations - ex Japan</b>	<b>276</b>	<b>248</b>	<b>282</b>	<b>403</b>	<b>359</b>	<b>354</b>
<b>US Insurance Operations<sup>(1a)(7)</sup></b>						
Fixed Annuities	48	22	14	21	18	<b>24</b>
Fixed Index Annuities	25	33	48	38	30	<b>30</b>
Life	6	6	6	6	6	<b>5</b>
Variable Annuities	105	147	180	207	201	<b>246</b>
Wholesale	–	–	–	–	–	–
<b>Total US Insurance Operations</b>	<b>184</b>	<b>208</b>	<b>249</b>	<b>272</b>	<b>255</b>	<b>305</b>
<b>UK &amp; Europe Insurance Operations</b>						
Direct and Partnership Annuities	13	14	15	17	20	<b>16</b>
Intermediated Annuities	6	8	6	5	6	<b>6</b>
Internal Vesting annuities	39	34	30	33	33	<b>31</b>
<b>Total Individual Annuities</b>	<b>58</b>	<b>56</b>	<b>50</b>	<b>55</b>	<b>59</b>	<b>53</b>
Corporate Pensions	52	62	41	55	60	<b>62</b>
On-shore Bonds	34	42	34	35	33	<b>36</b>
Other Products	35	35	33	41	40	<b>38</b>
Wholesale	1	1	1	3	1	–
<b>Total UK &amp; Europe Insurance Operations</b>	<b>180</b>	<b>197</b>	<b>158</b>	<b>189</b>	<b>193</b>	<b>189</b>
<b>Group Total – ex Japan</b>	<b>640</b>	<b>652</b>	<b>689</b>	<b>864</b>	<b>807</b>	<b>848</b>



**Schedule AK4 - Current Exchange Rates**  
**PRUDENTIAL PLC - NEW BUSINESS – Q2 2010**  
**TOTAL INSURANCE NEW BUSINESS APE - BY QUARTER**

	2009				2010	
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m
<b>Group Insurance Operations</b>						
Asia – ex Japan <sup>(1b)(7)</sup>	287	268	317	432	359	354
US <sup>(1b)(7)</sup>	174	210	264	288	255	305
UK	180	197	158	189	193	189
<b>Group Total - ex Japan</b>	<b>640</b>	<b>675</b>	<b>739</b>	<b>908</b>	<b>807</b>	<b>848</b>
Japan <sup>(1b)(7)</sup>	16	14	12	13	7	0
<b>Group Total</b>	<b>656</b>	<b>689</b>	<b>752</b>	<b>921</b>	<b>814</b>	<b>848</b>
<b>Asian Insurance Operations<sup>(1b)(7)</sup></b>						
Hong Kong	43	49	60	95	68	62
Indonesia	45	53	50	71	61	68
Malaysia	24	32	36	69	36	41
Philippines	2	2	3	5	5	5
Singapore	22	32	32	49	33	42
Thailand	4	4	4	4	5	8
Vietnam	6	8	9	11	8	10
<b>SE Asia Operations inc. Hong Kong</b>	<b>145</b>	<b>180</b>	<b>194</b>	<b>304</b>	<b>216</b>	<b>236</b>
China <sup>(8)</sup>	11	11	14	12	14	13
India <sup>(5)</sup>	57	23	46	55	73	46
Korea	43	32	35	27	22	24
Taiwan	31	21	29	34	34	35
<b>Total Asian Insurance Operations - ex Japan</b>	<b>287</b>	<b>268</b>	<b>317</b>	<b>432</b>	<b>359</b>	<b>354</b>
<b>US Insurance Operations<sup>(1b)(7)</sup></b>						
Fixed Annuities	45	23	17	23	18	24
Fixed Index Annuities	23	33	51	40	30	30
Life	6	6	6	6	6	5
Variable Annuities	99	148	191	219	201	246
Wholesale	–	–	–	–	–	–
<b>Total US Insurance Operations</b>	<b>174</b>	<b>210</b>	<b>264</b>	<b>288</b>	<b>255</b>	<b>305</b>
<b>UK &amp; Europe Insurance Operations</b>						
Direct and Partnership Annuities	13	14	15	17	20	16
Intermediated Annuities	6	8	6	5	6	6
Internal Vesting annuities	39	34	30	33	33	31
<b>Total Individual Annuities</b>	<b>58</b>	<b>56</b>	<b>50</b>	<b>55</b>	<b>59</b>	<b>53</b>
Corporate Pensions	52	62	41	55	60	62
On-shore Bonds	34	42	34	35	33	36
Other Products	35	35	33	41	40	38
Wholesale	1	1	1	3	1	–
<b>Total UK &amp; Europe Insurance Operations</b>	<b>180</b>	<b>197</b>	<b>158</b>	<b>189</b>	<b>193</b>	<b>189</b>
<b>Group Total – ex Japan</b>	<b>640</b>	<b>675</b>	<b>739</b>	<b>908</b>	<b>807</b>	<b>848</b>

**Schedule AK5 - Reported Exchange Rates**  
**PRUDENTIAL PLC - NEW BUSINESS – Q2 2010**  
**INVESTMENT OPERATIONS - BY QUARTER**

	2009				2010	
	Q1 £m	Q2 £m	Q3 £m	Q4 £m	Q1 £m	Q2 £m
<b>Group Investment Operations</b>						
Opening FUM	62,279	61,703	72,336	85,016	89,780	96,746
Net Flows	2,725	7,344	2,898	2,450	1,203	3,173
- Gross Inflows	19,154	25,567	26,394	24,942	24,173	27,182
- Redemptions	(16,429)	(18,223)	(23,496)	(22,492)	(22,970)	(24,009)
Other Movements	(3,301)	3,289	9,782	2,314	5,763	(3,904)
<b>Total Group Investment Operations</b>	<b>61,703</b>	<b>72,336</b>	<b>85,016</b>	<b>89,780</b>	<b>96,746</b>	<b>96,015</b>
<b>M&amp;G</b>						
<b>Retail</b>						
Opening FUM	19,142	19,671	23,324	28,504	31,054	34,069
Net Flows	2,207	1,863	1,656	1,790	1,454	1,922
- Gross Inflows	3,325	3,126	3,315	3,802	4,190	4,450
- Redemptions	(1,118)	(1,263)	(1,659)	(2,012)	(2,736)	(2,528)
Other Movements	(1,678)	1,790	3,524	765	1,556	(2,267)
Closing FUM	19,671	23,324	28,504	31,059	34,069	33,724
<b>Institutional<sup>(4)</sup></b>						
Opening FUM	27,855	26,865	32,597	37,731	39,247	42,155
Net Flows	336	4,219	856	551	435	863
- Gross Inflows	1,083	5,097	2,495	2,632	2,151	2,581
- Redemptions	(747)	(878)	(1,639)	(2,081)	(1,716)	(1,718)
Other Movements	(1,326)	1,513	4,278	965	2,473	(1,072)
Closing FUM	26,865	32,597	37,731	39,247	42,155	41,946
<b>Total M&amp;G Investment Operations</b>	<b>46,536</b>	<b>55,921</b>	<b>66,235</b>	<b>70,306</b>	<b>76,224</b>	<b>75,670</b>
<b>Asia</b>						
<b>Equity/Bond/Other<sup>(9)</sup></b>						
Opening FUM	10,570	10,038	10,636	12,492	13,122	14,923
Net Flows	(370)	174	322	57	166	1,031
- Gross Inflows	911	1,083	1,725	1,512	1,713	3,414
- Redemptions	(1,281)	(909)	(1,403)	(1,455)	(1,547)	(2,383)
Other Movements	(162)	424	1,534	573	1,635	(1,457)
Closing FUM	10,038	10,636	12,492	13,122	14,923	14,497
<b>MMF</b>						
Opening FUM	3,873	4,286	4,882	5,281	4,902	4,050
Net Flows	554	1,095	115	(321)	(857)	(768)
- Gross Inflows	13,808	16,248	18,854	16,618	16,107	16,600
- Redemptions	(13,254)	(15,153)	(18,739)	(16,939)	(16,964)	(17,368)
Other Movements	(141)	(499)	284	(58)	5	962
Closing FUM	4,286	4,882	5,281	4,902	4,050	4,244
<b>Third Party Institutional Mandates</b>						
Opening FUM	789	799	859	1,008	1,450	1,549
Net Flows	1	2	(2)	372	5	125
- Gross Inflows	24	10	5	378	12	137
- Redemptions	(23)	(8)	(7)	(6)	(7)	(12)
Other Movements	9	58	151	70	94	(70)
Closing FUM	799	859	1,008	1,450	1,549	1,604
<b>Total Asian Investment Operations</b>	<b>15,123</b>	<b>16,377</b>	<b>18,781</b>	<b>19,474</b>	<b>20,522</b>	<b>20,345</b>

<b>US</b>						
<b>Retail</b>						
Opening FUM	50	44	38	-	-	-
Net Flows	(3)	(9)	(49)	1	-	-
- Gross Inflows	3	3	-	-	-	-
- Redemptions	(6)	(12)	(49)	1	-	-
Other Movements	(3)	3	11	(1)	-	-
Closing FUM	<u>44</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Curian Capital - FUM	1,613	1,646	2,041	2,260	<b>2,708</b>	<b>2,781</b>

## RISK FACTORS

A number of factors (risk factors) affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this report, is not updated, and any forward looking statements are made subject to the reservations specified below under "Forward Looking Statements".

### **Risks relating to Prudential's business**

#### *Prudential's businesses are inherently subject to market fluctuations and general economic conditions*

Prudential's businesses are inherently subject to market fluctuations and general economic conditions. Uncertain or negative trends in international economic and investment climates which have adversely affected Prudential's business and profitability could be repeated, or prolonged, or could worsen. The adverse effects of such trends, including the unprecedented market dislocation across asset classes and geographical markets witnessed in 2008 and in the first half of 2009, have been and would be felt principally through the following:

- investment impairments or reduced investment returns, as a result of market volatility, could impair Prudential's ability to write significant volumes of new business which would have a negative impact on its assets under management and profit;
- higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses, as experienced during 2008 and 2009, when illiquidity and credit spreads reached all-time highs;
- Prudential in the normal course of business enters into a variety of transactions with counterparties, including derivative transactions. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on Prudential's results; and
- estimates of the value of financial instruments are difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain value and estimates of value require substantial elements of judgment, assumptions and estimates (which may change over time). Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline.

Although global markets began to stabilise in 2009, interest rates remain low, and many of the challenges of 2008 persist in the credit markets. New challenges may continue to emerge.

A significant part of Prudential's shareholders' profit is related to bonuses for policyholders declared on its with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. During 2008 and for the first half of 2009, Prudential had to operate in the UK against a challenging background of unprecedented volatility in capital and equity markets, interest rates and widespread economic uncertainty. This has led, among other things, to reduced consumer spending, an increase in unemployment, and consequently reduced liquidity, requiring the intervention of the Bank of England via a quantitative easing program to restore credit liquidity in the market.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match exactly those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated surrender values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than interest rates used to calculate surrender values over a sustained period, this could have an adverse impact on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson National Life Insurance Company (“Jackson”) which has a significant spread-based business, with the majority of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders’ liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. During 2008, the US financial services industry faced an unprecedented array of challenges: the S&P 500 index fell by 38.5 per cent, government interest rates fell to historic lows, and global markets experienced a significant increase in volatility. In addition, credit markets seized up and global credit spreads widened to historic levels. These factors contributed to substantial increases in Jackson’s unrealised losses. Declines in spread from these products or other spread businesses that Jackson conducts could have a material impact on its businesses or results of operations. Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. There could be unforeseen market circumstances where the derivatives that it enters into to hedge its market risks may not fully offset its losses, and any cost of the guarantees that remain unhedged will also affect Prudential’s results.

***Prudential will be subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio***

Prudential will be subject to the risk of potential sovereign debt credit deterioration and default. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. Investing in such instruments creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor’s willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor’s policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issues. If a sovereign were to default on its obligations, this could have a material adverse effect on Prudential’s financial condition and results of operations.

***Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses***

Due to their geographical diversity, Prudential’s businesses are subject to the risk of exchange rate fluctuations. Prudential’s operations in the US and Asia, which represent a significant proportion of operating profit and shareholders’ funds, generally write policies and invest in assets denominated in local currency. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential’s consolidated financial statements upon translation of results into pounds sterling. The currency exposure relating to the translation of reported earnings is not currently separately managed. The impact of gains or losses on currency translations is recorded as a component of shareholders’ funds within the statement of changes in equity. Consequently, this could impact on Prudential’s gearing ratios (defined as debt over debt plus shareholders’ funds).

***Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates***

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of the recent interventions by governments in response to global economic conditions, it is widely expected that there will be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transaction structure, and enhanced supervisory powers.

Current EU directives, including the EU Insurance Groups Directive ("IGD") require European financial services groups to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The test is a continuous requirement, so that Prudential needs to maintain a somewhat higher amount of regulatory capital at the group level than otherwise necessary in respect of some of its individual businesses to accommodate, for example, short-term movements in global foreign exchange rates, interest rates, deterioration in credit quality and equity markets. The EU is also developing a new solvency framework for insurance companies, referred to as "Solvency II". The new approach will be based on the concept of three pillars — minimum capital requirements, supervisory review of firms' assessment of risk, and enhanced disclosure requirements — and will cover valuations, the treatment of insurance groups, the definition of capital and the overall level of capital requirements. A key aspect of Solvency II is that the assessment of risks and capital requirements will be aligned more closely with economic capital methodologies, and may allow Prudential to make use of its internal economic capital models, if approved by the Financial Services Authority (FSA). The Solvency II Directive was formally approved by a meeting of the EU's Economic and Financial Affairs Council on 10 November 2009. The European Commission has already initiated the process of developing the detailed rules that will complement the high-level Principles of the Directive, referred to as "implementing measures", which are subject to a consultation process and are not expected to be finalised until late 2011. There is a significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for Prudential, including potentially a significant increase in capital required to support its business.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards ("IFRS") applicable to the insurance industry. The International Accounting Standards Board ("IASB") introduced a framework that it described as Phase I, which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB has published an Exposure Draft for its Phase II on insurance accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. It is uncertain whether and how the proposals in the Exposure Draft will become definitive IFRS and when such changes might take effect.

Any changes or modification of IFRS accounting policies may require a change in the future results or a restatement of reported results.

European Embedded Value (“EEV”) basis results are published as supplementary information by Prudential using principles issued by the European CFO (Chief Financial Officers) Forum. The EEV basis is a value-based reporting method for Prudential’s long-term business which is used by market analysts and which underpins a significant part of the key performance indicators used by Prudential’s management for both internal and external reporting purposes. In June 2008, in an effort to improve the consistency and transparency of embedded value reporting, the CFO Forum published the Market Consistent Embedded Value (MCEV) Principles. Following a review of the impact of turbulent market conditions on the MCEV Principles, the CFO Forum announced in May 2009 the postponement of the mandatory reporting on MCEV basis until 2011 and subsequently, in October 2009, changes in the principles to allow for the inclusion of a liquidity premium, which is the additional return investors require for investing in less liquid assets and is a key component in the calculation of the profitability of UK annuity business. It also announced that it was performing further work to develop more detailed application guidance to increase consistency going forward. When the work has been completed, Prudential will consider its approach to the new Principles. The adoption of the new Principles would give rise to different embedded value results from those prepared under the application of European Embedded Value Principles.

***The resolution of several issues affecting the financial services industry could have a negative impact on Prudential’s reported results or on its relations with current and potential customers***

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. This could be a review of business sold in the past under previously acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pension and mortgage endowment policies, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including, in the latter case, businesses it has closed.

Regulators particularly, but not exclusively, in the US and the UK are moving towards a regime based on principles-based regulation which brings an element of uncertainty. These regulators are increasingly interested in the approach that product providers use to select third party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, federal and state regulators have focused on, and continue to devote substantial attention to, the mutual fund, fixed index variable annuity and insurance product industries. This includes new regulations in respect of the suitability of broker-dealers’ sales of certain products. As a result of publicity relating to widespread perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. There is a risk that new requirements are introduced that are retrospectively applied to sales made prior to their introduction.

***Litigation, disputes and regulatory investigations may adversely affect Prudential’s profitability and financial condition***

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential’s businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential’s markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential’s results of operations or cash flows.

***Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends on management's ability to respond to these pressures and trends***

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal regional competitors are international financial companies, including Allianz, AXA, ING, AIA and Manulife. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors in the life market include many of the major retail financial services companies including, in particular, Aviva, Legal & General, Lloyds Banking Group and Standard Life.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organizations, banks and other financial services companies such as AIG, AXA Financial Inc., Hartford Life Inc., Lincoln National, MetLife and TIAA-CREF.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

***Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and hurt its relationships with creditors or trading counterparties***

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in most of Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products and retain current policyholders. In addition, the interest rates Prudential pays on its borrowings are affected by its debt credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

As at 30 June 2010:

Prudential's long-term senior debt is rated as A2 (negative outlook) by Moody's, A+ (negative watch) by Standard & Poor's and A+ (negative watch) by Fitch;

Prudential's short-term debt is rated as P1 by Moody's, A-1 by Standard & Poor's and F1+ (negative watch) by Fitch;

The Prudential Assurance Company Limited long-term fund is rated Aa2 (negative outlook) by Moody's, AA (negative watch) by Standard & Poor's and AA+ (negative watch) by Fitch;

Jackson's financial strength is rated AA (negative watch) by Standard & Poor's and Fitch, A1 (negative outlook) by Moody's, and A+ (stable) by AM Best.



In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

***Adverse experience in the operational risks inherent in Prudential's business could have a negative impact on its results of operations***

Operational risks are present in all of Prudential's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods. Prudential's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities. For example, any weakness in the administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Prudential has not experienced or identified any operational risks in its systems or processes during the first half of 2010, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations.

***Adverse experience against the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations***

Prudential needs to make assumptions about a number of factors in determining the pricing of its products and setting reserves and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. Prudential conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the Continuous Mortality Investigations (CMI) as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further example is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (persistence). This is particularly relevant to its lines of business other than its UK annuity business. Prudential's persistence assumptions reflect recent past experience for each relevant line of business. Any expected deterioration in future persistence is also reflected in the assumption. If actual levels of future persistence are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), the Group's results of operations could be adversely affected.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organizations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

In common with other industry participants, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity trends, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expense.

***As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments.***

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper. Certain of the subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit the payment of dividends, which in some circumstances could limit the ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

***Prudential operates in a number of markets through joint ventures and other arrangements with third parties (including in China and India), involving certain risks that Prudential does not face with respect to its consolidated subsidiaries***

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures (including in China and India). For the Group's joint venture operations, management control is exercised jointly with the venture participants. The level of control exercisable by the Group depends on the terms of the joint venture agreements, in particular, the allocation of control among, and continued co-operation between, the joint venture participants. Prudential may also face financial or other exposure in the event that any of its joint venture partners fails to meet its obligations under the joint venture or encounters financial difficulty. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could adversely affect the results of operations of Prudential

***Prudential's Articles of Association contain an exclusive jurisdiction provision***

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

***Changes in tax legislation may result in adverse tax consequences***

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its interpretation could affect Prudential's profitability and ability to provide returns to shareholders or alter the post-tax returns to shareholders.

By order of the Board of  
**Prudential plc**  
**Margaret Ann Coltman**  
*Company Secretary*

12 August 2010, Hong Kong

As at the date of this announcement, the board of directors of Prudential plc comprises:

*Executive Directors*

Cheick Tidjane Thiam (*Group Chief Executive*)

Nicolaos Andreas Nicandrou ACA

Robert Alan Devey

Clark Preston Manning Jr. FSA MAAA

Michael George Alexander McLintock

Barry Lee Stowe

*Independent Non-executive Directors*

Harvey Andrew McGrath (*Chairman*)

Keki Bomi Dadiseth FCA

Michael William Oliver Garrett

Ann Frances Godbehere FCGA

Bridget Ann Macaskill

Kathleen Anne O'Donovan ACA

James Hood Ross

Lord Andrew Turnbull KCB CVO

\* *For identification purpose*