PRUDENTIAL PLC
Form 6-K
September 28, 2010

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Table of Contents

As filed with the Securities and Exchange Commission on September 28, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

Laurence Pountney Hill,
London EC4R 0HH, England

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F _X_ Form 40-F ____

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark whether the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ____ No _X_

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Table of Contents

This report on Form 6-K is hereby incorporated by reference, in its entirety, into Prudential Public Limited Company's registration statement on Form F-3 (File No. 333-153367).

Table of Contents

TABLE OF CONTENTS

Table of Contents

SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Were Prudential to apply International Financial Reporting Standards as adopted by the European Union ("EU") as opposed to those issued by the IASB, no additional adjustments would be required. This table is only a summary and should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes included elsewhere in this document, together with the "Operating and Financial Review".

	Six Months Ended June 30,		
	2010[1]	**2010**	**2009**
	(In $ Millions)	**(In £ Millions)**	
Income statement data			
Earned premiums, net of reinsurance	**16,824**	**11,256**	9,518
Investment return	**7,514**	**5,027**	3,625
Other income	**1,127**	**754**	574
Total revenue, net of reinsurance	**25,465**	**17,037**	13,717
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(20,403)**	**(13,650)**	(10,783)
Acquisition costs and other expenditure	**(3,967)**	**(2,654)**	(2,446)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(193)**	**(129)**	(84)
Loss on sale of Taiwan agency business			(559)
Total charges, net of reinsurance	**(24,563)**	**(16,433)**	(13,872)
Profit (loss) before tax (*being tax attributable to shareholders' and policyholders' returns*)[2]	**902**	**604**	(155)
Tax (charge) credit attributable to policyholders' returns	**(16)**	**(11)**	79
Profit (loss) before tax attributable to shareholders	**886**	**593**	(76)
Tax (charge) credit attributable to shareholders' returns	**(223)**	**(149)**	(182)
Profit (loss) for the period	**663**	**444**	(258)

	Six Months Ended June 30,		
	2010[1]	**2010**	**2009**
Other data			
Based on profit (loss) for the period attributable to the equity holders of the Company:			
Basic earnings (loss) per share	**26.2¢**	**17.5p**	(10.2)p
Diluted earnings (loss) per share	**26.2¢**	**17.5p**	(10.2)p
Dividend per share declared and paid in reporting period[5]	**20.27¢**	**13.56p**	12.91p
Equivalent cents per share[6]		**19.76¢**	20.52¢
Market price at end of period	**760¢**	**508.5p**	414p
Weighted average number of shares (in millions)	**2,520**	**2,520**	2,489

Table of Contents

	As of and for the Six Months Ended June 30,		As of and for the Twelve Months Ended December 31,
	2010[1]	2010	2009
	(In $ Millions)	(In £ Millions)	
Statement of financial position data			
Total assets	**363,828**	**243,412**	227,754
Total policyholder liabilities and unallocated surplus of with-profits funds	**312,361**	**208,979**	196,417
Core structural borrowings of shareholder-financed operations	**5,205**	**3,482**	3,394
Total equity	**10,759**	**7,198**	6,303
Other data			
New business:			
Single premium sales[7]	**12,497**	**8,361**	14,438
New regular premium sales[3][4][7]	**1,224**	**819**	1,401
Gross investment product contributions[4]	**76,760**	**51,355**	96,057
Funds under management	**461,862**	**309,000**	290,000

(1)
Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.4947 per £1.00 (the noon buying rate in New York City on June 30, 2010).

(2)
This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders. See "Presentation of results before tax" in "IFRS Critical Accounting Policies" within the "Operating and Financial Review" section for further explanation.

(3)
New regular premium sales are reported on an annualized basis, which represents a full year of installments in respect of regular premiums, irrespective of the actual payments made during the period.

(4)
The new business premiums in the table 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 are not intended to be, reflective of premium income recorded in the IFRS income statement. 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 details shown above for new business 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.

Investment products included in gross investment product contributions in the table above 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.

(5)
Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final or any second interim dividend in respect of the prior period. Parent company dividends relating to the reporting period were an interim dividend of 6.61p per share for the first half of 2010 and 6.29p per share for the first half of 2009.

(6)
The dividends have been translated into US dollars at the noon buying rate on the dates the payments were made.

(7)

The new business premiums in the table shown above only reflect Prudential's retained businesses as at June 30, 2010. The new business premiums shown, including the comparatives for the twelve months ended December 31, 2009, exclude the new business premiums from the Japanese life insurance operations which ceased writing new business in February 2010, and the new business premiums for the Taiwan agency business, which was sold in June 2009, but include amounts for the retained Taiwan bank distribution business.

Table of Contents

EXCHANGE RATE INFORMATION

Prudential publishes its consolidated financial statements in pounds sterling. References in this document to "US dollars", "US$", "$" or "¢" are to US currency, references to "pounds sterling", "£", "pounds", "pence" or "p" are to UK currency (there are 100 pence to each pound) and references to "Euro" or "€" are to the single currency adopted by the participating members of the European Union. The following table sets forth for each period the average of the noon buying rates on the last business day of each month of that period, as certified for customs purposes by the Federal Reserve Bank of New York, for pounds sterling expressed in US dollars per pound sterling for each of the reported periods. Prudential has not used these rates to prepare its consolidated financial statements.

Period	Average rate
Six months ended June 30, 2009	1.49
Twelve months ended December 31, 2009	1.57
Six months ended June 30, 2010	1.52

The following table sets forth the high and low buying rates for pounds sterling expressed in US dollars per pound sterling for each of the previous six months:

Month	High rate	Low rate
March 2010	1.53	1.49
April 2010	1.55	1.52
May 2010	1.52	1.43
June 2010	1.51	1.44
July 2010	1.57	1.50
August 2010	1.60	1.54

On September 24, 2010, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.58.

FORWARD-LOOKING STATEMENTS

This report on Form 6-K 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 UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or the US listing rules.

Table of Contents

EEV BASIS AND NEW BUSINESS RESULTS

In addition to IFRS basis results, Prudential's filings with the UK Listing Authority and Group Annual Reports include reporting by Key Performance Indicators ("KPIs"). These include results prepared in accordance with the European Embedded Value ("EEV") Principles and Guidance issued by the Chief Financial Officers' ("CFO") Forum of European Insurance Companies, and New Business measures.

The EEV basis is a value based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital (or economic capital where higher) and free surplus) of Prudential's life insurance operations. Prudential publishes its EEV basis results semi-annually in the UK market and beginning in 2010, Prudential also publishes its EEV basis results semi-annually in the Hong Kong and Singapore markets.

New Business results are published quarterly and 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 are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. As from the first quarter of 2010, EEV basis new business profits and margins are also published quarterly.

Table of Contents

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes to Prudential's unaudited condensed consolidated interim financial statements for the period ended June 30, 2010 included in this document. Prudential's unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS. A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled " IFRS Critical Accounting Policies".

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors.

Introduction

In the first half of 2010, Prudential continued to provide a broad range of financial products and services, primarily to the retail market. Prudential's principal operations continue to be in Asia, the United States and the United Kingdom. The accounting policies applied by Prudential in determining the IFRS basis results reflected in Prudential's unaudited condensed consolidated interim financial statements for the period ended June 30, 2010 are the same as those previously adopted in Prudential's consolidated financial statements for the year ended December 31, 2009, except for the adoption of new accounting pronouncements in 2010. The more significant such accounting pronouncements include the revised IFRS 3, "Business Combinations" and amendments to IAS 27, "Consolidated and Separate Financial Statements". The changes in accounting policies as a result of the adoption of these two standards has been applied prospectively. No restatement of 2009 comparatives is required. Further details of the impact on Prudential's consolidated interim financial statements are shown in note B to the unaudited condensed consolidated interim financial statements.

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's unaudited condensed consolidated interim financial statements, prepared in accordance with International Financial Reporting Standards as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRS standards have not been endorsed by the EU. As at June 30, 2010, there were no unendorsed standards effective for the period ended June 30, 2010 affecting the consolidated financial information of Prudential, and there was no difference between IFRS endorsed by the EU and IFRS as issued by the IASB in terms of their application to Prudential. Accordingly, Prudential's financial information for the period ended June 30, 2010 is prepared in accordance with IFRS as issued by the IASB. It is Prudential's policy to adopt mandatory requirements of new or altered EU-adopted IFRS standards where required, with earlier adoption applied where permitted and appropriate in the circumstances.

The preparation of these financial statements requires Prudential to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, Prudential evaluates its estimates, including those related to long-term business provisioning, the fair value of assets and the declaration of bonus rates. Prudential bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially give rise to different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to those described below.

The critical accounting policies in respect of the items discussed below are critical for Prudential's results in so far as they relate to the Prudential's shareholder-financed business. In particular, this applies for Jackson National Life Company "Jackson", which is the largest shareholder-backed business in Prudential. The policies are not critical in respect of the Group's with-profits business, except for the treatment of unallocated surplus. This distinction reflects the basis of recognition and the accounting treatment of unallocated surplus of with-profits funds as a liability. Accordingly, explanation is provided in this section as to why the distinction between the with-profits business and shareholder-backed business is relevant.

In order to provide relevant analysis that is appropriate to the circumstances applicable to the Prudential's businesses, the explanations refer to types of business, fund structure, the relationship between asset and policyholder liability measurement, and the differences in the method of accounting permitted under IFRS 4 for accounting for insurance contract assets, policyholder liabilities and unallocated surplus of Prudential's with-profits funds.

The policies and key assumptions described below are relevant to the reporting periods covered by this filing. Quantitative analysis for the year ended December 31, 2009 was provided in Prudential's annual report for 2009 filed with the SEC on Form 20-F. Quantitative analysis for the six months to June 30, 2010 is generally not provided in this section apart from information relating to Jackson's available-for-sale debt securities portfolio and unrecognized deferred tax assets. Other quantitative analysis as applied for the 2010 full year results, will be provided in Prudential's annual report for 2010 to be filed with the SEC on Form 20-F.

Investments

Determining the fair value of financial investments when the markets are not active

Prudential holds certain financial investments for which the markets are not active. These can include financial investments which are not quoted on active markets and financial investments for which markets are no longer active as a result of market conditions, e.g., market illiquidity. When the markets are not active, there is generally no or limited observable market data to account for the financial investments at fair value. The determination of whether an active market exists for a financial investment requires management's judgment.

If the market for a financial investment of Prudential is not active, the fair value is determined by using valuation techniques. Prudential establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or the valuation technique 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 valuation techniques include the use of 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 and 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 affect the reported fair value of these financial investments.

Table of Contents

The financial investments measured at fair value are classified (from January 1, 2009) into the following three level hierarchy on the basis of the lowest level of inputs that is significant to the fair value measurement of the financial investments concerned:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable either directly or indirectly (i.e. derived from prices).

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

As at June 30, 2010, £4,982 million of the financial investments (net of derivative liabilities) valued at fair value were classified as level 3, which represents three per cent of the total financial investments (net of derivative liabilities) carried at fair value at that date. Of these, £892 million are held to back shareholder non-linked business, and so changes to these valuations will directly affect shareholders' equity. Further details of the classification of financial instruments are given in note T to Prudential's unaudited condensed consolidated interim financial statements.

Determining impairments relating to financial assets

Available-for-sale securities

Under IAS 39, Prudential has the option to account for individual financial instruments as available-for-sale. Currently the only financial investments carried on an available-for-sale basis are represented by Jackson's debt securities portfolio. The consideration of evidence of impairment requires management's judgment. In making this determination the factors considered include, for example,

- Whether the decline of the financial investment's fair value is substantial

A substantial decline in fair value might be indicative of a credit loss event that would lead to a measurable decrease in the estimated future cash flows.

- The impact of the duration of the security on the calculation of the revised estimated cash flows

The duration of a security for maturity helps to inform whether assessments of estimated future cash flows that are higher than market value are reasonable.

- The duration and extent to which the amortized cost exceeds fair value

This factor provides an indication of how the contractual cash flows and effective interest rate of a financial asset compares with the implicit market estimate of cash flows and the risk attaching to a 'fair value' measurement. The length of time for which that level of difference has been in place may also provide further evidence as to whether the market assessment implies an impairment loss has arisen.

- The financial condition and prospects of the issuer or other observable conditions that indicate the investment may be impaired.

If a loss event that will have a detrimental effect on cash flows is identified an impairment loss in the income statement is recognized. The loss recognized is determined as the difference between the book cost and the fair value of the relevant impaired securities. This loss comprises the effect of the expected loss of contractual cash flows and any additional market price driven temporary reductions in values.

For Jackson's residential mortgage-backed and other asset-backed securities all of which are classified as available-for-sale, the model used to analyze cash flows begins with the current delinquency experience of the underlying collateral pool for the structure by applying assumptions about how much of the currently delinquent loans will eventually default, and multiplying this by an assumed loss

Table of Contents

severity. Additional factors are applied to anticipate the effect of ageing. After applying a cash flow simulation an indication is obtained as to whether or not the security has suffered, or is anticipated to suffer, a principal or interest payment shortfall. If a shortfall applies an impairment charge is recorded.

The difference between the fair value and book cost for unimpaired securities accounted for as available-for-sale is accounted for as unrealized gains or losses, with the movements in the accounting period being accounted for in other comprehensive income.

Prudential's review of fair value involves several criteria, including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial information, unrealized losses currently in equity may be recognized in the income statement in future periods. The preceding note in this section provides explanation on how fair value is determined when the markets for the financial investments are not active.

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

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

	June 30, 2010	**Changes in unrealized appreciation****	**Foreign exchange translation**	**December 31, 2009**
		(In £ Millions)		
Assets fair valued at below book value				
Book value*	**3,796**			8,220
Unrealized 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
Unrealized 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 unrealized gain	**1,171**	1,144	23	4
Fair value (as included in statement of financial position)***	**27,243**			22,668

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

** Translated at the average rate of $1.5253: £1.

*** Debt securities for US operations included in the statement of financial position at June 30, 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.

9

Table of Contents

The following tables provide further detail regarding the key attributes of Jackson's available-for-sale securities that are in an unrealized loss position at June 30, 2010.

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

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

	June 30, 2010		December 31, 2009	
	Fair value	Unrealized loss	Fair value	Unrealized loss
		(In £ Millions)		
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:

	June 30, 2010		December 31, 2009	
	Fair value	Unrealized loss	Fair value	Unrealized loss
		(In £ Millions)		
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) Unrealized losses by maturity of security

	June 30, 2010	December 31, 2009
	(In £ Millions)	
Less than 1 year		
1 year to 5 years	**(13)**	(29)
5 years to 10 years	**(31)**	(127)
More than 10 years	**(43)**	(92)
Mortgaged-backed and other debt securities	**(434)**	(718)
Total	**(521)**	(966)

Table of Contents

(c) Age analysis of unrealized loss position for the periods indicated

The following table shows the age analysis of all the unrealized losses in the Jackson available-for-sale portfolio by reference to the length of time the securities have been in an unrealized loss position:

	June 30, 2010			December 31, 2009		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
	(In £ Millions)					
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 June 30, 2010, the gross unrealized losses in the statement of financial position for Jackson's available-for-sale sub-prime and Alt-A securities in an unrealized loss position were £70 million (December 31, 2009: £119 million), as shown above in note (a). Of these losses, £5 million (December 31, 2009: £21 million) relate to securities that have been in an unrealized loss position for less than one year and £65 million (December 31, 2009: £98 million) to securities that have been in an unrealized loss position for more than one year.

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

As shown in note (a) above, £340 million of the £521 million of gross unrealized losses on Jackson's available-for-sale securities at June 30, 2010 (December 31, 2009: £594 million of the £966 million of gross unrealized losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £340 million (December 31, 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:

	June 30, 2010		December 31, 2009	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In £ Millions)			
Analysis by category of debt security:				
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)

Table of Contents

	June 30, 2010		December 31, 2009	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	(In £ Millions)			
Age analysis of fair value being below 80 per cent for the period indicated				
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)

Assets held at amortized cost

Financial assets classified as loans and receivables under IAS 39 are initially recognized at fair value plus transaction costs. Subsequently, they are carried at amortized cost using the effective interest rate method. The loans and receivables include loans collateralized by mortgages, deposits and loans to policyholders. In estimating future cash flows, Prudential looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks and adjusts for conditions in the historical loss experience which no longer exist or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; and Prudential may later decide to sell the asset as a result of changed circumstances.

Insurance contracts

Product classification

IFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred. Insurance risk is a pre-existing risk, other than financial risk, transferred from the contract holder to the contract issuer. If significant insurance risk is transferred by the contract then it is classified as an insurance contract. Contracts that transfer financial risk but not significant insurance risk are termed investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participation features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits:

(a) that are likely to be a significant portion of the total contractual benefits;

(b) whose amount or timing is contractually at the discretion of the insurer; and

(c) that are contractually based on asset or fund performance, as discussed in IFRS 4.

Accordingly, insurers must perform a product classification exercise across their portfolio of contracts issued to determine the allocation to these various categories. IFRS 4 permits the continued usage of previously applied GAAP for insurance contracts and investment contracts with discretionary participating features. Except for UK regulated with-profits funds, as described below, subsequently this basis has been applied by Prudential.

For investment contracts that do not contain discretionary participating features, IAS 39 and, where the contract includes an investment management element, IAS 18, apply measurement principles to assets and liabilities attaching to the contract.

Table of Contents

Valuation assumptions

(i) Contracts of with-profits funds

Prudential's insurance contracts and investment contracts with discretionary participating features are primarily with-profits and other protection type policies. For UK regulated with-profits funds, the contract liabilities are valued by reference to the FSA realistic basis. In aggregate, this basis has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances.

The basis of determining liabilities for Prudential's with-profits business has little or no effect on the results attributable to shareholders. This is because movements on liabilities of the with-profits funds are absorbed by the unallocated surplus. Except through indirect effects, or in remote circumstances as described below, changes to liability assumptions are therefore reflected in the carrying value of the unallocated surplus which is accounted for as a liability rather than shareholders' equity.

Prudential's other with-profits contracts are written in with-profits funds that operate in some of Prudential's Asian operations. The liabilities for these contracts and those of Prudential Annuities Limited, which is a subsidiary company of the Prudential Assurance Company ("PAC") with-profits funds, are determined differently. For these other with-profits contracts applicable to Prudential's activities in the first half of 2010 and 2009, the liabilities are estimated using actuarial methods based on assumptions relating to premiums, interest rates, investment returns, expenses, mortality and surrenders. The assumptions to which the estimation of these reserves is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

For liabilities determined using the basis described above for UK regulated with-profits funds, and the other liabilities described in the preceding paragraph, changes in estimates arising from the likely range of possible changes in underlying key assumptions have no direct impact on the reported profit.

This lack of sensitivity reflects the with-profits fund structure, basis of distribution, and the application of previous GAAP to the unallocated surplus of with-profits funds as permitted by IFRS 4. Changes in liabilities of these contracts that are caused by altered estimates are absorbed by the unallocated surplus of the with-profits funds with no direct effect on shareholders' equity.

(ii) Other contracts

Contracts, other than those of with-profits funds, are written in shareholder-backed operations of Prudential. The significant shareholder-backed product groupings and the factors that may significantly affect IFRS results due to experience against assumptions or changes of assumptions vary significantly between business units. For some types of business the effect of changes in assumptions may be significant, whilst for others, due to the nature of the product, assumption setting may be of less significance. The nature of the products and the significance of assumptions are discussed below. From the perspective of shareholder results the key sensitivity relates to the assumption for allowance for credit risk for UK annuity business.

Jackson

Jackson offers individual fixed annuities, fixed index annuities, immediate annuities, variable annuities, individual and variable life insurance and institutional products. With the exception of institutional products and an incidental amount of business for annuity certain contracts, which are accounted for as investment contracts under IAS 39, all of Jackson's contracts are accounted for under IFRS 4 as insurance contracts by applying US GAAP, the previous GAAP used before IFRS adoption. The accounting requirements under US GAAP and the effect of changes in valuation assumptions are considered below for fixed annuity, variable annuity and traditional life insurance contracts.

Table of Contents

Fixed annuity contracts, which are investment contracts under US GAAP terminology, are accounted for by applying in the first instance a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by potentially three additional amounts, namely deferred income, any amounts previously assessed against policyholders that are refundable on termination of the contract, and any premium deficiency, i.e. any probable future loss on the contract. These types of contract contain considerable interest rate guarantee features.

Notwithstanding the accompanying market risk exposure, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of Jackson's fixed annuity products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions. For variable annuity business, the key assumption is the expected long-term level of equity market returns as described further below under "Deferred acquisition costs *Jackson*".

For traditional life insurance contracts, provisions for future policy benefits are determined using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and the guaranteed minimum death benefit reserves, the profits of Jackson are relatively insensitive to changes in insurance risk. This reflects the principally spread and fee-based nature of Jackson's business.

Asian operations

The insurance products written in Prudential's Asian operations principally cover with-profits business, unit-linked business, and other non-participating business. The results of with-profits business are relatively insensitive to changes in estimates and assumptions that affect the measurement of policyholder liabilities. As for the UK business, this feature arises because unallocated surplus is accounted for by Prudential as a liability. The results of Asian unit-linked business are also relatively insensitive to changes in estimates or assumptions.

Deferred acquisition costs

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 capitalized and amortized 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 amortization of acquisition costs is of most relevance to Prudential'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.

Table of Contents

Jackson

For term business, acquisition costs are deferred and amortized in line with expected premiums. For annuity and interest-sensitive business, acquisition costs are deferred and amortized 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 experience is measured by the 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 amortized in line with the emergence of profits. The measurement of the amortization 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. The key assumption is the expected long-term level of equity market returns, as described below.

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

The level of acquisition costs carried in the statement of financial position is also sensitive to unrealized valuation movements on debt securities held to back the liabilities and solvency capital.

Pensions

Prudential applies the requirements of IAS 19, "Employee Benefits" and associated interpretations including IFRIC 14 "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", to its defined benefit pension schemes. The principal defined benefit pension scheme is the Prudential Staff Pension Scheme ("PSPS"). For PSPS the terms of the trust deed restrict shareholders' access to any underlying surplus. Accordingly, applying the interpretation of IFRIC 14, any underlying IAS 19 basis surplus is not recognized for IFRS reporting.

The financial position for PSPS recorded in the IFRS financial information reflects the higher of any underlying IAS 19 deficit and any obligation for deficit funding.

The economic participation in the surplus or deficits attaching to PSPS and the smaller Scottish Amicable Pensions Scheme ("SAPS") are shared between the PAC with-profits sub-fund ("WPSF") and shareholder operations. The economic interest reflects the source of contributions over the scheme life, which in turn reflects the activity of the members during their employment.

Table of Contents

In the case of PSPS, movements in the apportionment of the financial position for PSPS between the WPSF and shareholders' funds in the first half of 2010 reflect the 70/30 ratio applied to the base deficit position as at December 31, 2005 but with service cost and contributions for ongoing service apportioned by reference to the cost allocation for activity of current employees. For SAPS, the ratio is estimated to be 50/50 between the WPSF and shareholders' funds.

Due to the inclusion of actuarial gains and losses in the income statement rather than being recognized directly in other comprehensive income, the results of Prudential are affected by changes in interest rates for corporate bonds that affect the rate applied to discount projected pension payments and changes in mortality assumptions and changes in inflation assumptions.

Deferred tax

Deferred tax assets are recognized to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved.

The taxation regimes applicable to Prudential apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. The judgments made, and uncertainties considered, in arriving at deferred tax balances in the financial information are discussed in note L to the unaudited condensed consolidated interim financial statements.

Goodwill

Goodwill impairment testing requires the exercise of judgment by management as to prospective future cash flows.

Other features of IFRS accounting that are of particular significance to an understanding of Prudential's results

The other features that are of particular significance relate to: the timing of adoption of certain IFRS standards and their consequential impact upon the financial statements; the accounting for UK with-profits funds; and the presentation of certain items in the financial statements.

Insurance contract accounting

With the exception of investment contracts without discretionary participation features, Prudential's life assurance contracts are classified as insurance contracts and investment contracts with discretionary participating features.

As permitted by IFRS 4, assets and liabilities of these contracts are accounted for under previously applied GAAP. In limited circumstances, Prudential has chosen to apply a more relevant or reliable measure. The following paragraphs explain how Prudential currently applies this policy. Except as described below, in respect of UK regulated with-profits funds where the basis applied has been improved to a more relevant or reliable measure (also as permitted under IFRS 4), the modified statutory basis ("MSB") of reporting as set out in the revised Statement of Recommended Practice ("SORP") issued by the Association of British Insurers ("ABI") has been applied to Prudential's UK and overseas operations.

In 2005, Prudential chose to improve its IFRS accounting for UK regulated with-profits funds by the voluntary application of the UK accounting standard FRS 27, "Life Assurance". Under this standard, the main accounting changes that were required for UK with-profits funds were:

- derecognition of deferred acquisition costs and related deferred tax; and

Table of Contents

replacement of MSB liabilities with adjusted realistic basis liabilities.

The results included in the unaudited condensed consolidated interim financial statements reflect this basis.

Unallocated surplus represents the excess of assets over policyholder liabilities for Prudential's with-profits funds that have yet to be appropriated between policyholders and shareholders. Prudential has opted to account for unallocated surplus wholly as a liability with no allocation to equity.

This treatment reflects the fact that shareholders' participation in the cost of bonuses arises only on distribution. Shareholder profits on with-profits business reflect one-ninth of the cost of declared bonus.

For Prudential's current overseas operations, the application of the MSB (which permits the use of local GAAP in some circumstances) varies depending upon the basis of accounting applied prior to IFRS adoption or acquisition by Prudential, and whether adjustments to the basis or a more appropriate method should be applied. For Jackson, applying the MSB as applicable to overseas operations, which permits the application of local GAAP in some circumstances, the assets and liabilities of insurance contracts are accounted for under insurance accounting prescribed by US GAAP. For the assets and liabilities of insurance contracts of Prudential's current Asian operations, the local GAAP is applied with adjustments, where necessary, to comply with UK GAAP. For the operations in Taiwan, Vietnam and Japan, countries where local GAAP is not appropriate in the context of the previously applied MSB, accounting for insurance contracts is based on US GAAP. For participating business the liabilities include provisions for the policyholders' interest in realized investment gains and other surpluses that, where appropriate, and in particular for Vietnam, have yet to be declared as bonuses.

The usage of these bases of accounting has varying effects on the way in which product options and guarantees are measured. For UK regulated with-profits funds, options and guarantees are valued on a market consistent basis. For other operations a market consistent basis is not applied.

In Prudential's US operations for the Guaranteed Minimum Death Benefit ("GMDB") and "for life" Guaranteed Minimum Withdrawal Benefit ("GMWB") features which are valued in accordance with US GAAP for IFRS purposes, the difference in approach to valuing these liabilities and the attaching hedging derivatives, together with the effect of other factors in the hedging program for these liabilities gives rise to net hedging gains and losses, which are variable from period to period.

Valuation and accounting presentation of fair value movements of derivatives and debt securities of Jackson

Under IAS 39, derivatives are required to be carried at fair value. Unless net investment hedge accounting is applied, value movements on derivatives are recognized in the income statement. With the exception of value movements on derivatives held for variable annuities and other equity hedging activities, the value movements on derivatives held by Jackson are separately identified within the supplementary analysis of profit in the category of short-term fluctuations in investment returns. Derivative value movements in respect of equity risk within variable annuity business and other equity related hedging activities are included within the operating profit based on longer-term investment return.

For derivative instruments of Jackson, Prudential has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. In reaching the decision a number of factors were particularly relevant. These were:

IAS 39 hedging criteria have been designed primarily in the context of hedging and hedging instruments that are assessable as financial instruments that are either stand-alone or separable from host contracts, rather than, for example, duration characteristics of insurance contracts;

Table of Contents

- the high hurdle levels under IAS 39 of ensuring hedge effectiveness at the level of individual hedge transactions;

- the difficulties in applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book;

- the complexity of asset and liability matching of US life insurers such as those with Jackson's product range; and

- whether it is possible or desirable, without an unacceptable level of costs and constraint on commercial activity, to achieve the accounting hedge effectiveness required under IAS 39.

Taking account of these considerations Prudential has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39. As a result of this decision, the total income statement results are more volatile as the movements in the value of Jackson's derivatives are reflected within it.

Under IAS 39, unless carried at amortized cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. Prudential has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale, with value movements less impairments being recorded as movements within other comprehensive income. Impairment losses are recorded in the income statement.

Presentation of results before tax

The total tax charge for Prudential reflects tax that in addition to relating to shareholders' profits is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. However, pre-tax profits are determined after transfers to or from unallocated surplus of with-profits funds. These transfers are in turn determined after taking account of tax borne by with-profits funds. Consequently, reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. In order to provide a measure of pre-tax profits attributable to shareholders Prudential has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes policyholder and shareholder components.

Segmental analysis of results and earnings attributable to shareholders

Prudential uses operating profit based on longer-term investment returns as the segmental measure of its results. The basis of calculation is disclosed in the paragraph in this section entitled "Analysis of IFRS basis operating profit based on longer-term investment returns and IFRS total profit".

For shareholder-backed business, with the exception of debt securities held by Jackson and assets classified as loans and receivables, all financial investments and investment property are designated as assets at fair value through profit and loss. Short-term fluctuations in investment returns on such assets held by with-profits funds, do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as a liability and (ii) excess or deficits of income and expenditure of the funds over the required surplus for distribution are transferred to or from unallocated surplus. However, for shareholder-backed businesses the short-term fluctuations affect the result for the year, and Prudential provides additional analysis of results to provide information on results before and after short-term fluctuations in investment returns.

Table of Contents

Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential's consolidated total profit (loss) for the periods indicated.

	Six Months Ended June 30,	
	2010	**2009**
	(In £ Millions)	
Total revenue, net of reinsurance	**17,037**	13,717
Total charges, net of reinsurance	**(16,433)**	(13,872)
Profit (loss) before tax *(being tax attributable to shareholders' and policyholders' returns)**	**604**	(155)
Tax (charge) credit attributable to policyholders' returns	**(11)**	79
Profit (loss) before tax attributable to shareholders	**593**	(76)
Tax charge	**(160)**	(103)
Less: tax attributable to policyholders' returns	**11**	(79)
Tax charge attributable to shareholders' returns	**(149)**	(182)
Profit (loss) for the period	**444**	(258)

* This measure is the formal loss before tax measure under IFRS but it is not the result attributable to shareholders. See "Presentation of results before tax" under "IFRS Critical Accounting Policies" section above for further explanation.

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as "with-profits" and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results by reference to profits for the period, reflecting profit after tax. In explaining movements in profit for the period, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in Note C of the unaudited condensed consolidated interim financial statements. This basis is used by management and reported externally to the UK shareholders and the UK financial market. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

a) Group overview

The improvement in the result for the period from a loss of £258 million in the first six months of 2009 to a profit of £444 million in the first six months of 2010 reflects the movement in results before tax attributable to shareholders, which improved from a loss of £76 million in the first half of 2009 to a profit of £593 million in the first half of 2010, and the tax charge attributable to shareholders, which decreased from £182 million in the first half of 2009 to £149 million in the first half of 2010.

The movement in profit before tax attributable to shareholders primarily reflects a £280 million increase in operating profit based on longer-term investment return and the impact of one-off items.

Table of Contents

While the profit before tax attributable to shareholders in the first half of 2010 was reduced by the terminated AIA transaction costs of £377 million, the first half of 2009 was adversely impacted by a £559 million loss on disposal of the Taiwan agency business as well as £216 million of IGD hedge costs. These movements are discussed in section b) below.

The effective tax rate for the first half of 2010 for the tax charge against a profit before tax attributable to shareholders was 25 per cent, compared to an effective tax rate of negative 239 per cent for the first half of 2009 for the tax charge against loss before tax attributable to shareholders. The movement was principally due to the first half of 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 recognized within Jackson. The effective tax rate on operating profit based on longer-term investment returns for the first half of 2010 was 25 per cent, which compares with an effective tax rate of 26 per cent for the first half of 2009.

b) Summary by business segment and geographical region

Prudential's operating segments as determined under IFRS 8 are insurance operations split by geographic regions in which it conducts business, which are Asia, the United States and the United Kingdom, and asset management operations split into M&G, which is Prudential's UK and European asset management business, the Asian asset management business and the US broker-dealer and asset management business (including Curian).

The following table shows Prudential's IFRS consolidated total profit (loss) for the periods after tax indicated presented by summary business segment and geographic region. The accounting policies applied to the segments below are the same as those used in Prudential's consolidated accounts.

	Six Months Ended June 30, 2010				
	Asia	**US**	**UK**	**Unallocated corporate**	**Total**
	(In £ Millions)				
Insurance operations	**255**	**236**	**295**		**786**
Asset management**	**28**	**9**	**98**		**135**
Total profit attributable to the segments	**283**	**245**	**393**		**921**
Unallocated corporate***				**(477)**	**(477)**
Total profit (loss) for the period	**283**	**245**	**393**	**(477)**	**444**

	Six Months Ended June 30, 2009				
	Asia	**US**	**UK**	**Unallocated corporate**	**Total**
	(In £ Millions)				
Insurance operations	(465)*	206	185		(74)
Asset management**	16	(2)	77		91
Total (loss) profit attributable to the segments	(449)	204	262		17
Unallocated corporate***				(275)	(275)
Total (loss) profit for the period	(449)	204	262	(275)	(258)

* Includes the loss on the sale of the Taiwan agency business of £559 million. Excluding this amount, there would be a profit for the first half of 2009 for Asian insurance operations of £94 million.

**

For the US, including the broker dealer business and Curian.

***

The results for unallocated corporate for the six months to June 30, 2010 and June 30, 2009 include the impacts of the costs of the terminated AIA transaction and the IGD hedging respectively.

Table of Contents

Profit from insurance operations

Total profit from insurance operations in the first half of 2010 was £786 million compared to a loss of £74 million in the first half of 2009. All of the profits from insurance operations in the first half of 2010 and 2009 were from continuing operations. The 2009 figure includes the loss on sale of £559 million for the Taiwan agency business, the disposal of which was completed in June 2009 but did not qualify as a discontinued operation under IFRS. The movement in profits for insurance operations can be summarized as follows:

	Six Months Ended June 30,	
	2010	2009
	(In £ Millions)	
Profit before shareholder tax	**1,045**	194
Shareholder tax	**(259)**	(268)
Profit (loss) after tax	**786**	(74)

The significant increase of £851 million in profit before tax attributable to shareholders in the first half of 2010 compared to the first half of 2009 primarily reflects an increase in operating profit based on longer-term investment returns of the insurance operations and the results of the first half of 2009 being impacted by the loss on sale of the Taiwan agency business.

The effective shareholder tax rate on profits from insurance operations decreased from 138 per cent in the first half of 2009 to 25 per cent in the first half of 2010. This was due primarily to the first half of 2009 being impacted by the loss on the sale of the Taiwan agency business for which no tax relief was received and a restriction on the level of deferred tax asset that could be recognized within Jackson.

In order to understand how Prudential's results are derived, it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates.

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. This basis is applied in Japan, Vietnam and less materially following the sale of the agency business in 2009, in Taiwan. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven as described under "United Kingdom Basis of profits" section below.

Table of Contents

Comparison of total profit (loss) arising from Asian insurance operations

The following table shows the movement in profit / (loss) arising from Asian insurance operations from the first half of 2009 to the first half of 2010:

	Six Months Ended June 30, 2010	2009
	(In £ Millions)	
Profit (loss) before shareholder tax	**300**	(455)
Shareholder tax	**(45)**	(10)
Profit (loss) after tax	**255**	(465)

The increase of £755 million from the loss before tax attributable to shareholders in the first half of 2009 of £455 million to a profit of £300 million in the first half of 2010 primarily reflects the one-off loss in the first half of 2009 of £559 million, arising on the sale of the Taiwan agency business completed in June 2009; a favorable change of £82 million in the short-term fluctuations in investment returns for shareholder-backed business and an increase of £52 million in operating profit based on longer-term investment returns.

A one-off credit of £63 million arose in the first half of 2009 as a result of replacing the methodology for valuing the liabilities of the Malaysian life business by a method based on the Malaysian authority's risk-based capital framework on January 1, 2009. Excluding this one-off credit in the first half of 2009, operating profit based on longer-term investment returns increased by £115 million from the first half of 2009 to the first half of 2010.

The effective shareholder tax rate changed from negative two per cent in the first half of 2009 to 15 per cent in the first half of 2010, with the movement principally due to there being no tax relief on the loss relating to the sale of the Taiwan agency business in June 2009.

United States

Basis of profits

The underlying profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuity business with the insurance assets and liabilities of the business measured on a US GAAP basis. In addition, the results in any period include the incidence of gains and losses on assets classified as available-for-sale, and fair value movements on derivatives and securities classified as fair valued through profit and loss.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profits arising from US insurance operations from the first half of 2009 to the first half of 2010:

	Six Months Ended June 30, 2010	2009
	(In £ Millions)	
Profit before shareholder tax	**330**	382
Shareholder tax	**(94)**	(176)
Profit after tax	**236**	206

Table of Contents

Of the £52 million decrease in profit before tax attributable to shareholders for the first half of 2010 against the comparative period in 2009, the main drivers were an adverse change of £285 million in the short-term fluctuations in investment returns reflected in the income statement, partially offset by an increase of £233 million in operating profit based on longer-term investment returns.

The increase in operating profit based on longer-term investment returns was primarily due to higher separate account fee income and higher spread income in the first half of 2010 when compared with the first of 2009. Jackson also benefited from a £123 million net equity hedging gain, in the first half of 2010 compared with a £23 million net equity hedging loss in the first half of 2009. Jackson hedges the product economics rather than the accounting results, and higher hedging gains were primarily the result of market movements in the first half of 2010 compared with the first half of 2009, and the accounting differences that arise as the liabilities for certain guaranteed minimum death and withdrawal benefits which are not marked to fair value similarly to the hedging instruments. Hedging results also benefited from Jackson's separate account outperforming the overall market.

The adverse movement in short-term fluctuation in investment returns was driven by market value movements in the first half of 2010 compared with the first half of 2009. The effective tax rate on profits from US operations decreased from 46 per cent in the first half of 2009 to 29 per cent in the first half of 2010. The movement was caused mainly by the first half of 2009 being impacted by a restriction on the level of deferred tax asset that could be recognized within Jackson.

United Kingdom

Basis of profits

Prudential's results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund, hereafter referred to as the with-profits fund, as well as profits from its other businesses. For most of Prudential's operations, other than its UK long-term insurance operations, the IFRS basis of accounting matches items of income and related expenditure within the same accounting period. This is achieved through the deferral of acquisition costs and application of the accruals concept.

With-profits products

For Prudential's UK insurance operations, the primary annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of regular and final bonuses.

Shareholders' profit in respect of bonuses from with-profits products represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. The board of directors of the subsidiary companies that have with-profits operations, using actuarial advice, determine the amount of regular and final bonuses to be declared each year on each group of contracts. The smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business.

Bonus rates

Bonus rates are applied to with-profits policies in the UK and similar products in Singapore, Hong Kong and Malaysia. The most significant with-profits fund is in the UK where, as at June 30, 2010, liabilities to with-profits policyholders were in aggregate of £55.6 billion. Liabilities to with-profits policyholders in Asia as at June 30, 2010 were £10.1 billion. The details that follow are in respect of the UK with-profits business. The method by which bonuses for Prudential's Asia with-profits business are determined is substantially similar to the method by which bonuses for Prudential's UK with-profits business are determined.

The main factors that influence the determination of bonus rates are the return on the investments of the with-profits fund, the effect of inflation, taxation, the expenses of the fund chargeable to policyholders and the degree to which investment returns are smoothed. The overall rate of return earned on investments and the expectation of future investment returns are the most important influences on bonus rates. A high proportion of the assets backing the with-profits business are invested in equities and real estate. If the financial strength of the with-profits fund were adversely affected, then a higher proportion of fixed interest or similar assets might be held by the fund.

Further details on the determination of the two types of bonus ("regular" and "final"), the application of significant judgment, key assumptions and the degree of smoothing of investment returns in determining the bonus rates are provided below.

Regular bonus rates

For regular bonuses, the bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets. The expected future investment return is reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers. However, the rates declared may differ by product type, or by the date of payment of the premium or date of issue of the policy or if the accumulated annual bonuses are particularly high or low relative to a prudent proportion of the achieved investment return.

When target bonus levels change, the PAC board of directors has regard to the overall strength of the long-term fund when determining the length of time over which it will seek to achieve the amended prudent target bonus level.

In normal investment conditions, PAC expects changes in regular bonus rates to be gradual over time, and these are not expected to exceed one per cent per annum over any year. However, the directors of PAC retain the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.

Final bonus rates

A final bonus, which is normally declared yearly, may be added when a claim is paid or when units of a unitized product are realized.

The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares for the sample policies but subject to the smoothing approach, explained below.

In general, the same final bonus scale applies to maturity, death and surrender claims except that:

- the total surrender value may be impacted by the application of a Market Value Reduction ("MVR") (for accumulating with-profits policies) and is affected by the surrender bases (for conventional with-profits business); and

- for the Scottish Amicable Insurance Fund ("SAIF") and Scottish Amicable Life ("SAL"), the final bonus rates applicable on surrender may be adjusted to reflect expected future bonus rates.

Application of significant judgment

The application of the above method for determining bonuses requires the PAC board of directors to apply significant judgment in many respects, including in particular the following:

- Determining what constitutes fair treatment of customers: Prudential is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of determining what constitutes fair treatment, while established by statute, is not defined.

Table of Contents

Smoothing of investment returns: Smoothing of investment returns is an important feature of with-profits products. Determining when particular circumstances, such as a significant rise or fall in market values, warrant variations in the standard bonus smoothing limits that apply in normal circumstances requires the PAC Board to exercise significant judgment.

Determining at what level to set bonuses to ensure that they are competitive: The overall return to policyholders is an important competitive measure for attracting new business.

Key assumptions

As noted above, the overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. Prudential determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business as described above. As such, it is not possible to quantify specifically the effects of each of these assumptions or of reasonably likely changes in these assumptions.

Prudential's approach, in applying significant judgment and discretion in relation to determining bonus rates, is consistent conceptually with the approach adopted by other firms that manage a with-profits business. It is also consistent with the requirements of UK law, which require all UK firms that carry out a with-profits business to define, and make publicly available, the Principles and Practices of Financial Management ("PPFM") that are applied in the management of their with-profits funds.

Accordingly, Prudential's PPFM contains an explanation of how it determines regular and final bonus rates within the discretionary framework that applies to all with-profits policies, subject to the general legislative requirements applicable. The purpose of Prudential's PPFM is therefore to:

explain the nature and extent of the discretion available;

show how competing or conflicting interests or expectations of different groups and generations of policyholders, and policyholders and shareholders are managed so that all policyholders and shareholders are treated fairly; and

provide a knowledgeable observer (e.g. a financial adviser) with an understanding of the material risks and rewards from starting and continuing to invest in a with-profits policy with Prudential.

Furthermore, in accordance with industry-wide regulatory requirements, the PAC Board has appointed:

an Actuarial Function Holder who provides the PAC board of directors with all actuarial advice;

a With-Profits Actuary whose specific duty is to advise the PAC board of directors on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the PPFM and the manner in which any conflicting interests have been addressed; and

a With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting rights have been addressed.

Smoothing of investment return

In determining bonus rates for the UK with-profits policies, smoothing is applied to the allocation of the overall earnings of the UK with-profits fund of which the investment return is a significant element. The smoothing approach differs between accumulating and conventional with-profits policies to reflect the different contract features. In normal circumstances, Prudential does not expect most payout values on policies of the same duration to change by more than 10 per cent up or down from one year to the next, although some larger changes may occur to balance payout values between different policies.

Table of Contents

Greater flexibility may be required in certain circumstances, for example following a significant rise or fall in market values, and in such situations the PAC board of directors may decide to vary the standard bonus smoothing limits in order to protect the overall interests of policyholders.

Unallocated surplus

The unallocated surplus represents the excess of assets over policyholder liabilities of Prudential's with-profits funds. The annual excess or 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, or from, the unallocated surplus through a charge or 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 unrealized appreciation on investments.

Changes to the level of the unallocated surplus do not directly impact shareholders' results or funds. After allowing for differences in the basis of preparation of the financial information and UK regulatory returns, movements in the level of the unallocated surplus are broadly indicative of movements in the excess of regulatory basis assets over liabilities of the fund. Differences in the basis of preparation of financial statements and UK regulatory returns arise principally from the treatment of certain regulatory basis liabilities, such as mismatching reserves (that are accounted for as reserves within the unallocated surplus), and asset valuation differences and admissibility deductions reflected in the regulatory returns. Except to the extent of any second order effects on other elements of the regulatory returns, such changes can be expected to have a consequent effect on the excess of assets over liabilities of the fund for the purposes of solvency calculations, and the related free asset ratio which is an indicator of the overall financial strength of the fund. Similar principles apply to Prudential's Asian with-profits business.

Surplus assets and their use

The liability for unallocated surplus comprises amounts Prudential expects to pay to policyholders in the future, the related shareholder transfers and surplus assets. These surplus assets have accumulated over many years from a variety of sources and provide the with-profits fund with working capital. This working capital permits Prudential to invest a substantial portion of the assets of the with-profits fund in equity securities and real estate, smooth investment returns to with-profits policyholders, keep its products competitive, write new business without being constrained as to cash flows in the early policy years and demonstrate solvency.

In addition, Prudential can use surplus assets to absorb the costs of significant events, such as fundamental strategic change in its long-term business, and, with the consent of the UK regulator, the cost of its historical pensions mis-selling, without affecting the level of distributions to policyholders and shareholders. The costs of fundamental strategic change may include investment in new technology, redundancy and restructuring costs, cost overruns on new business and the funding of other appropriate long-term insurance related activities, including acquisitions.

The "SAIF" and "PAL" funds

Prudential's with-profits fund includes the Scottish Amicable Insurance Fund ("SAIF") and the wholly-owned subsidiary, Prudential Annuities Limited ("PAL"). All assets of the SAIF business are solely attributable to former policyholders of Scottish Amicable Life Assurance Society (predating the acquisition of Scottish Amicable by Prudential in October 1997). Since PAL is a wholly-owned subsidiary of the with-profits fund, profits from this business affect shareholders' profits only to the extent that they affect the annual with-profits bonus declaration and resultant transfer to shareholders.

Table of Contents

Accounting for with-profits business

For with-profits business (including non-participating business of Prudential Annuities Limited which is owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognized in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on preceding UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year.

Fair value of assets

Changes in the fair value of assets of Prudential's long-term with-profits funds will primarily be reflected in the excess of assets over liabilities recorded as the unallocated surplus. Shareholders' profits from with-profits business and shareholders' funds are not directly impacted by movements in the fair values of the assets. However, current investment performance is a factor that is taken into account in the setting of the annual declaration of bonuses which, in turn, affects UK shareholder profits to the extent of one-ninth of the cost of bonus.

Investment returns

For with-profits business, investment returns together with other income and expenditure are recorded within the income statement. However, the difference between net income of the fund and the cost of bonuses and related statutory transfers is reflected in an amount transferred to, or from, the unallocated surplus within the income statement. Except to the extent of current investment returns being taken into account in the setting of a bonus policy, the investment returns of a with-profits fund in a particular year do not affect shareholder profits or with-profits funds.

Comparison of total profit arising from UK insurance operations

Profit after tax from UK insurance operations increased by £110 million from £185 million in the first half of 2009 to £295 million in the first half of 2010:

The following table shows the movement in profits arising from UK insurance operations from the first half of 2009 to the first half of 2010:

	Six Months Ended June 30,	
	2010	**2009**
	(In £ Millions)	
Profit before shareholder tax	**415**	267
Shareholder tax	**(120)**	(82)
Profit after tax	**295**	185

The increase in profit before tax attributable to shareholders of £148 million primarily reflects a favorable change in the value of short-term fluctuations in investment returns of the shareholder-backed business of £156 million. The short-term fluctuation gain of the first half of 2010 reflects asset value movements principally on the shareholder-backed annuity business. Operating profit based on longer-term investment returns remained flat at £330 million both for the first half of 2010 and the first half of 2009. Operating profit based on longer-term investment returns included general insurance commissions of £23 million in the first half of 2010 compared with £27 million for the first half of 2009.

The effective shareholder tax rate on profits from UK insurance operations for the first half of 2010 of 29 per cent compares with an effective tax rate of 31 per cent in the first half of 2009.

Table of Contents

Profit from asset management

Total profit from asset management increased from £91 million in the first half of 2009 to £135 million in the first half of 2010.

The following table shows the movement in profits from asset management from the first half of 2009 to the first half of 2010:

	Six Months Ended June 30,	
	2010	**2009**
	(In £ Millions)	
Profit before shareholder tax	**190**	126
Shareholder tax	**(55)**	(35)
Profit after tax	**135**	91

The £64 million increase in profit before tax attributable to shareholders resulted mainly from an increase in profit generated by M&G, which increased from a profit before tax of £103 million in the first half of 2009 to a profit before tax of £139 million in the first half of 2010. In addition, Prudential's Asian asset management operations and US broker dealer and asset management operations experienced improved performances, with profit before shareholder tax increasing by £15 million and £13 million respectively from the first half of 2009 to the first half of 2010.

The £36 million increase in profit before tax attributable to M&G reflected a favorable movement of £41 million in operating profit based on longer-term investment returns, which was driven by higher equity market levels, strong investment net-inflows, particularly in retail business, and increased sales of more profitable equity products. The first half of 2010 also experienced a favorable movement in short-term fluctuations of £9 million compared with the first half of 2009, which was partially offset by an increase in actuarial losses on defined benefit pension schemes of £14 million to £16 million in the first half of 2010, compared to £2 million in the first half of 2009.

The effective tax rate on profits from asset management operations increased from 28 per cent in the first half of 2009 to 29 per cent in the first half of 2010.

Unallocated corporate result

Total net of tax charges for unallocated corporate activity increased by £202 million from £275 million in the first half of 2009 to £477 million in the first half of 2010.

The following table shows the movement in the unallocated corporate result from the first half of 2009 to the first half of 2010:

	Six Months Ended June 30,	
	2010	**2009**
	(In £ Millions)	
Loss before shareholder tax	**(642)**	(396)
Shareholder tax	**165**	121
Loss after tax	**(477)**	(275)

The loss before shareholder tax in the first half of 2010 of £642 million includes costs of £377 million incurred in relation to the proposed, and now terminated, transaction to purchase AIA Group Limited, comprising a termination break fee of £153 million payable to AIG, underwriting and adviser and other costs of £124 million and costs associated with foreign exchange hedging of £100 million. Further details of these costs are presented in Note G of Prudential's unaudited condensed consolidated interim financial statements. The period-on-period movement in loss before shareholder tax also resulted from an adverse movement in other income and expenditure (including restructuring and Solvency II implementation costs) of £74 million, from £191 million in the first half of 2009 to £265 million in the first half of 2010 offset by a favorable change in short-term fluctuations in investment returns to £nil in the first half of 2010 from a loss of £144 million in the first half of 2009 and a favorable change of £61 million in actuarial gains and losses on Prudential's defined benefit pension schemes.

The increase of £74 million in net other expenditure primarily reflects an increase in interest payable on core structural borrowings, lower returns on central funds and Solvency II implementation costs incurred in the first half of 2010 of £22 million.

The favorable change in the short-term fluctuations in investment returns was mainly the result of the first half of 2009 including a one-off £216 million cost arising from the hedge temporarily put in place during the first quarter of 2009 to protect Prudential's IGD capital surplus. During the extreme equity market conditions experienced in the first quarter of 2009, with historically high equity volatilities, Prudential entered into exceptional overlay short-dated hedging contracts to protect against potential tail events on the IGD capital position, in addition to its regular operational hedging programs. The hedge contracts expired in 2009 and have not been renewed.

The change in the actuarial and other gains and losses on Prudential's defined benefit pension schemes was primarily due to the first half of 2009 including the shareholder's share of the actuarial losses relating to the Scottish Amicable Pension Scheme, which were reallocated to UK insurance operations from the second half of 2009 onwards.

The effective tax rate on unallocated corporate result decreased from 30 per cent in the first half of 2009 to 26 per cent in the first half of 2010 due primarily to the inability to fully recognize a tax credit on the costs incurred in relation to the terminated AIA transaction in the first half of 2010 and the inability to recognize a deferred tax asset on various tax losses in the first half of 2009.

c) Additional explanation of performance measures and analysis of consolidated results by business segment and geographical region

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of Prudential's results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

Prudential determines and presents operating segments based on the information that internally is provided to the Group Executive Committee ("GEC"), which is Prudential's chief operating decision maker.

An operating segment is a component of Prudential that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Prudential's other components. An operating segment's operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The operating segments identified by Prudential reflect its organizational structure, which is by both geography (Asia, US, UK) and by product line (insurance operations versus asset management). Prudential's operating segments as determined under IFRS 8 are:

Insurance operations

Asia

US (Jackson)

UK

Table of Contents

- 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 utilized by Prudential is operating profit based on longer term investment returns attributable to shareholders. Longer-term investment returns included within the performance measure are determined by reference to expected long-term rates of return. These are intended to reflect historical rates of return on assets and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The overriding reason for distinguishing longer-term investment returns from short-term fluctuations is that the investments are generally held for the longer-term to back long duration insurance contract liabilities and solvency capital rather than for short-term trading purposes. Furthermore, the income statement recognition of investment appreciation, short-term value movements on derivatives, and the charge for the policyholder benefits under IFRS 4 give rise to accounting mismatches that are not representative of the underlying economic position.

In addition to excluding the recurrent items of short-term fluctuations in investment returns, operating profit also excludes the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. Also, for the first half of 2010 this measure excluded costs associated with the terminated AIA transaction. For the first half of 2009, it excluded the non-recurrent cost of hedging Prudential's IGD capital surplus included within short-term fluctuations in investment returns. Furthermore, in the first half of 2009, Prudential 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 segmental analysis of profit. Segment results that are reported to the 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 Asia 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 Prudential's shareholder-financed operations.

Debt and equity securities

Longer-term investment returns comprise income and longer-term capital returns. For debt securities, the longer-term capital returns comprise two elements. These are a risk margin reserve ("RMR") based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest-related realized gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured. The shareholder-financed operation for which the risk margin reserve charge is most significant is Jackson National Life. During the second half of 2009, the National Association of Insurance Commissioners (NAIC) changed its approach to the determination of regulatory ratings of residential mortgage-backed securities (RMBS), using an external third party, PIMCO, to develop regulatory ratings details for more than 20,000 RMBS securities owned by US insurers at end of 2009. Jackson has used the ratings

Table of Contents

resulting from this model to determine the average annual RMR for the first half of 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 Recognized Statistical Ratings Organizations (NRSRO). However, 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.

Derivative value movements

Value movements for Jackson's equity-based derivatives and variable annuity and fixed index product embedded derivatives are included in operating profit 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 Guaranteed Minimum Withdrawal Benefit ("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 policyholder's 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 amortization 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) to the unaudited condensed consolidated interim financial statements.

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 program for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than 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 separate account 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.

31

Table of Contents

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.

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 are broadly equivalent in the income statement, and operating profit based on longer-term investment returns is not distorted. In these circumstances there is no need for the movement in the liability to be bifurcated between the element that relates 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 returns and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

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 policyholder interest in investment appreciation and other surpluses primarily reflect the level of realized 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 realized investment gains (net of any recovery of prior deficits on the participating pool), less amortization 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 segmental analysis of profit before tax attributable to policyholders.

Non-participating business

Liabilities are bifurcated so that the movement in the carrying value of liabilities is split between that which is 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 product features

For unhedged Guaranteed Minimum Death Benefit ("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 03-1), which partially reflects changes in market conditions. Under Prudential's supplementary basis of reporting, the

Table of Contents

operating profit based on longer-term investment returns 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.

US operations embedded derivatives for variable annuity guarantee features

Under IFRS, the "not for life" GMWB is required to be fair valued as an embedded derivative. The movements in carrying values are affected by changes in the 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 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 recognized 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.

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 risks 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 applied to portfolio rebalancing to align more closely with the management benchmark.

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 realized gains and losses (including impairments) in the operating result with unrealized 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 with the carrying value. In some instances it may also be appropriate to amortize realized gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying substance of the arrangements.

Actuarial and other gains and losses on defined benefit pension schemes

Actuarial and other gains and losses on defined benefit pension schemes principally reflect short-term value movements on scheme assets and the effects of changes in actuarial assumptions. Under Prudential's accounting policies these items are recorded within the income statement, rather than through other comprehensive income, solely due to the interaction of Prudential's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19.

Table of Contents

Reconciliation of total profit (loss) by business segment and geography to IFRS operating profit based on longer-term investment returns

Analysis of IFRS operating profit based on longer-term investment returns and IFRS total profit

A reconciliation of profit (loss) before tax (including tax attributable to policyholders' returns) to profit (loss) before tax attributable to shareholders and profit (loss) for the period is shown below.

	Six Months Ended June 30,	
	2010	**2009**
	(In £ Millions)	
Insurance business		
Long-term business(ii)		
Asia	**262**	212
US(iv)	**450**	217
UK	**307**	303
Development expenses	**(3)**	(5)
Long-term business profit	**1,016**	727
UK general insurance commission(v)	**23**	27
Asset management business		
M&G	**143**	102
Asia asset management	**36**	21
Curian	**2**	(3)
US broker-dealer and asset management(iv)	**13**	5
	1,233	879
Other income and expenditure	**(240)**	(179)
Solvency II implementation costs	**(22)**	
Restructuring costs	**(3)**	(12)
Total IFRS operating profit based on longer-term investment returns(i)	**968**	688
Short-term fluctuations in investment returns(vi)		
Insurance operations	**14**	61
IGD hedge costs		(216)
Other operations	**12**	75
Total short-term fluctuations in investment returns	**26**	(80)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes(vii)	**(24)**	(63)
Costs of terminated AIA transaction	**(377)**	
Loss on sale and results for Taiwan agency business(iii)		(621)
Profit (loss) from continuing operations before tax attributable to shareholders	**593**	(76)
Tax charge attributable to shareholders' returns	**(149)**	(182)
Profit (loss) for the period	**444**	(258)
Non-controlling interests	**(2)**	4
Total profit (loss) for the period attributable to equity holders of Prudential	**442**	(254)

Notes

(i) Operating profit based on longer-term investment returns.

Operating profit based on longer-term investment returns is a supplemental measure of results and is the basis on which management regularly review the performance of Prudential's segments as defined by IFRS 8. For the purposes of measuring

Table of Contents

operating profit, investment returns on shareholder- financed business are based on expected long-term rates of return as discussed above. The expected long-term rates of return are intended to reflect historical rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The most significant operation that requires adjustment for the difference between actual and long-term investment returns is Jackson. The amounts included in operating results for long-term capital returns for Jackson's debt securities comprise two components. These are a risk margin reserve-based charge for long-term expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest-related realized gains and losses to operating results based on longer-term results to the date when sold bonds would otherwise have matured. Consistent with the policy of including longer-term investment returns in the measure of operating profit, movements in policyholder liabilities are also, where appropriate, delineated between amounts included in operating profit and movements arising from short-term market conditions, which are recorded in short-term fluctuations in investment returns.

(ii) Effect of changes to assumptions, estimates and bases of determining life assurance liabilities.

The results of Prudential's long-term business operations are affected by changes to assumptions, estimates and bases of preparation. These are described in note E to the unaudited condensed consolidated interim financial statements.

(iii) Sale of Taiwan agency business.

In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect Prudential'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 the first half of 2009.

(iv) Jackson operating results based on longer-term investment returns.

The US insurance operating profit of £450 million includes £123 million of net equity hedging gains, net of related deferred acquisition costs ("DAC"), (first half of 2009: losses of £23 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, of which a significant proportion are not fair valued. These net gains / losses are variable in nature.

(v) UK operations transferred its general insurance business to Churchill in 2002, with general insurance commission representing the commission receivable (net of expenses) for Prudential branded general insurance products as part of this arrangement.

(vi) Short-term fluctuations in investment returns on shareholder-backed business.

	Six Months Ended June 30,	
	2010	**2009**
	(In £ Millions)	
Insurance operations		
Asia	**41**	(41)
US	**(120)**	165
UK	**93**	(63)
Other operations		
IGD hedge costs		(216)
Other	**12**	75
Total	**26**	(80)

General overview of defaults

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

Asian insurance operations

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

Table of Contents

US insurance operations

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

	Six Months Ended June 30, 2010	2009
	(In £ Millions)	
Short-term fluctuations relating to debt securities:		
Charges in the period (note 1)		
Defaults		
Losses on sales of impaired and deteriorating bonds	**(100)**	(44)
Bond write downs	**(64)**	(324)
Recoveries/reversals	**3**	2
	(161)	(366)
Less: Risk margin charge included in operating profit based on longer-term investment returns (note 2)	**36**	41
	(125)	(325)
Interest related realized gains (losses):		
Arising in the period	**169**	75
Less: Amortization of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	**(47)**	(34)
	122	41
Related change to amortization of deferred acquisition costs	**(2)**	37
Total short-term fluctuation related to debt securities	**(5)**	(247)
Derivatives (other than equity related): market value movement (net of related change to amortization of deferred acquisition costs) (note 3)	**111**	339
Equity type investments: actual less longer-term return (net of related change to amortization of deferred acquisition costs) (note 2)	**1**	(40)
Equity-related derivatives: volatility and interest rate normalization (net of related change to amortization of deferred acquisition costs) (note 4)	**(238)**	91
Other items (net of related change to amortization of deferred acquisition costs)	**11**	22
Total	**(120)**	165

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

	Six Months Ended June 30, 2010	2009
	(In £ Millions)	
Residential mortgage-backed securities:		
Prime	**7**	123
Alt-A	**26**	98
Sub prime	**6**	18
Total residential mortgage-backed securities	**39**	239
Piedmont securities	**25**	5
Corporates		80

Losses on sales of impaired and deteriorating bonds, net of recoveries	**97**	42
	161	366

Table of Contents

2.

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

	Six months ended June 30, 2010				Six months ended June 30, 2009			
Moody's rating category or equivalent under NAIC ratings of RMBS	Average Book value	RMR	Annual expected losses		Average Book value	RMR	Annual expected losses	
	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)
Baa1, 2 or 3	**20,747**	**0.25**	**(51)**	**(33)**	20,955	0.22	(47)	(32)
Ba1, 2 or 3	**2,016**	**1.04**	**(21)**	**(14)**	1,947	1.17	(23)	(16)
B1, 2 or 3	**505**	**2.97**	**(15)**	**(10)**	609	2.86	(17)	(11)
Below B3	**339**	**3.87**	**(13)**	**(8)**	769	3.93	(30)	(20)
Total	**43,749**	**0.25**	**(111)**	**(72)**	44,060	0.28	(121)	(82)
Related change to amortization of deferred acquisition costs			**28**	**18**			23	16
Risk margin reserve charge for longer-term credit related losses			**(83)**	**(54)**			(98)	(66)

For the six month period ended June 30, 2010, Jackson has continued the practice, which it 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).

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 June 30, 2010 and 6.7 per cent to 9.6 per cent at June 30, 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 Prudential's 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 amortization of deferred acquisition costs.

3.

The gain of £111 million (first half of 2009: gain of £339 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 recognized 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 program 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 program attaching to the fixed annuity and other general account business Prudential 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.

4. The £238 million loss (first half of 2009: gain of £91 million) for equity-related derivatives is due to the normalization of value movements for freestanding and embedded derivatives. This normalization reflects the inclusion 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 unrealized gains on debt securities classified as available-for-sale of £1,144 million (first half of 2009: reduction in net

Table of Contents

unrealized losses of £808 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 to Prudential's unaudited condensed consolidated interim financial statements.

UK insurance operations

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

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 programs. The hedge contracts expired in 2009 and have not been renewed.

Other operations

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

	Six months ended June 30,	
	2010	**2009**
	(In £ Millions)	
Unrealized value movements on swaps held centrally to manage Group assets and liabilities		69
Unrealized value movements on Prudential Capital bond portfolio	**12**	2
Unrealized value movements on investments held by other operations		4
Total	**12**	75

(vii) 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 on scheme liabilities, the effect of changes in assumptions and altered provisions for deficit funding, where relevant.

Reconciliation of IFRS operating profit based on longer-term investment returns to IFRS total profit

The following tables reconcile Prudential's operating profit based on longer-term investment returns to total profit attributable to shareholders.

	Insurance operations			Asset management			Total	Unallocated	
Six Months Ended June 30, 2010	**UK**	**US**	**Asia**	**M&G**	**US**	**Asia**	**Segment**	**corporate**	**Total**
				(In £ Millions)					
Insurance operations:									
Operating profit based on longer-term investment returns	**330**	**450**	**259**	**143**	**15**	**36**	**1,233**	**(265)**	**968**
Short-term fluctuations in investment returns on shareholder-backed business	**93**	**(120)**	**41**	**12**			**26**		**26**
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(8)**			**(16)**			**(24)**		**(24)**
Costs of terminated AIA transaction								**(377)**	**(377)**
	415	**330**	**300**	**139**	**15**	**36**	**1,235**	**(642)**	**593**

Profit (loss) from continuing operations before tax attributable to shareholders	
Tax attributable to shareholders	**(149)**
Profit for the period	**444**

Table of Contents

Six Months Ended June 30, 2009	Insurance operations UK	US	Asia	Asset management M&G	US	Asia	Total Segment	Unallocated corporate	Total
	(In £ Millions)								
Insurance operations:									
Operating profit based on longer-term investment returns	330	217	207	102	2	21	879	(191)	688
Short-term fluctuations in investment returns on shareholder-backed business	(63)	165	(41)	3			64	(144)	(80)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes				(2)			(2)	(61)	(63)
Loss on sale and results for the Taiwan agency business			(621)				(621)		(621)
(Loss) profit from continuing operations before tax attributable to shareholders	267	382	(455)	103	2	21	320	(396)	(76)
Tax attributable to shareholders									(182)
Loss for the period									(258)

IFRS operating profit based on longer-term investment returns

In the first half of 2010, Prudential's operating profit based on longer-term investment return was £968 million compared to £688 million in the first half of 2009, an increase of 41 per cent. The US operating profit for the first half of 2010 of £450 million includes £123 million of net equity hedging gains (first half of 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, Prudential's operating profit increased by 19 per cent in the first half of 2010 compared to the first half of 2009.

Insurance operations

In Asia, operating profit for long-term business increased by 25 per cent from £207 million in the first half of 2009 to £259 million in the first half of 2010. This increase reflects both underlying growth as Prudential's Asia operations build their in-force book and improvement in new business strain from a charge of £47 million in the first half of 2009 to a charge of £43 million in the first half of 2010. The £207 million in the first half of 2009 included 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 accounted for 76 per cent, or £198 million, of operating profits (first half of 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 its 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.

Table of Contents

In the US, the long-term business operating profit increased by 107 per cent from £217 million in the first half of 2009 to £450 million in the first half of 2010. The 2010 result includes net equity hedge gains (net of related DAC amortization) of £123 million (first half of 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 GMDB and "for-life" 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 June 30, 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 the first half of 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 amortization, primarily reflecting Jackson's increased profitability and an increased charge for accelerated variable annuity DAC amortization, which increased from £12 million in the first half of 2009 to £67 million in the first half of 2010, arising from lower than projected levels of market returns in the period.

In the UK, total operating profit was in line with last year at £330 million. The long-term business operating profit was slightly ahead at £307 million (first half of 2009: £303 million). The UK's value focus saw it 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 the first half of 2010 in line with the decline in the in-force policy numbers as the business matures.

Asset management business

M&G's operating profit based on longer-term investment returns for the first half of 2010 was £143 million, an increase of 40 per cent from £102 million in the first half of 2009. This reflects higher equity market levels, the continuation of 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 the first half of 2009. This reflects higher funds under management during the period and the benefits of cost cutting actions taken in 2009. Profit in the first half of 2009 was also adversely impacted by a one-off loss in India of £6 million.

The US asset management business saw an increase in operating profit based on longer-term investment returns of £13 million from £2 million in the first half of 2009 to £15 million in the first half of 2010.

Unallocated corporate result

Unallocated corporate net charge increased by £74 million from £191 million in the first half of 2009 to £265 million in the first half of 2010. The net charge of £265 million in the first half of 2010 comprised £240 million of other income and expenditure, £22 million of costs related to the implementation of Solvency II and £3 million of restructuring costs. The net charge of £191 million in the first half of 2009 comprised £179 million of other income and expenditure, £nil costs related to the implementation of Solvency II and £12 million of restructuring costs.

Table of Contents

The £61 million increase in the charge for other income and expenditure to £240 million from the first half of 2009 to the first half of 2010 primarily reflects an increase in interest payable on core structural borrowings.

Analysis of life insurance operating profit* based on longer-term investment returns by driver

	Six months ended June 30,	
	2010	**2009**
	(In £ Millions)	
Investment spread	**571**	514
Asset management fees	**321**	203
Net expense margin	**(205)**	(209)
DAC amortization** (Jackson only)		
Underlying	**(199)**	(148)
Acceleration	**(67)**	(12)
Net insurance margin	**309**	217
With-profits business	**171**	158
Non-recurrent release of reserves for Malaysian life operation		63
Other	**(8)**	(23)
Net equity hedge gains (losses) within Jackson	**123**	(23)
Total	**1,016**	727

* Excludes UK general insurance commission (first half 2010: £23 million; first half 2009 £27 million).

** Excluding amounts for equity hedge and related effects.

The analysis above classifies Prudential's pre-tax operating profit based on longer-term investment returns from life 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 amortization (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.

Table of Contents

Insurance operations

An analysis of the operating profit based on longer-term investment returns by drivers for the life insurance operations for the first half of 2010 and 2009 is provided in the tables below. The analysis by drivers has been made using the categorization as described above.

	Six months ended June 30, 2010			
	Asia (note (iii))	US	UK	Total
	(In £ Millions)			
Investment spread	**42**	**402**	**127**	**571**
Asset management fees	**52**	**240**	**29**	**321**
Net expense margin	**(51)**	**(150)**	**(4)**	**(205)**
DAC amortization (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**
Total	**259**	**450**	**307**	**1,016**

	Six months ended June 30, 2009			
	Asia (note (iii))	US	UK	Total
	(In £ Millions)			
Investment spread	35	314	165	514
Asset management fees	34	142	27	203
Net expense margin	(68)	(105)	(36)	(209)
DAC amortization (Jackson only)				
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 gains within Jackson (note (i))		(23)		(23)
Total	207	217	303	727

Notes

(i) Net equity hedge gains/losses within Jackson, being the movement in operating derivatives in the period and associated DAC amortization 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. 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 GMDB and "for life" GMWB features the liabilities are not fair valued for accounting purposes but are reported pursuant to US GAAP measurement basis applied for IFRS reporting.

(ii) The DAC amortization of Jackson shown on the tables above reflects the charge to the operating results excluding the amount related to the net hedge results described in note (i) above. The Jackson amortization 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 Prudential's accounting methodology. The acceleration arising in the first half of 2010 and first half of 2009 reflects asset value shortfalls in the period compared with the assumed level of 15 per cent for the year.

Table of Contents

(iii) Sale of Taiwan agency business

In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect Prudential'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.

Short-term fluctuations in investment returns

Short-term fluctuations in investment returns for Prudential's insurance operations of positive £14 million for the first half of 2010 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 unrealized gains on the shareholder debt portfolio.

The negative short-term fluctuations of £120 million for our US operations principally arose 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 were positive £12 million, and mainly represent unrealized 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 negative £24 million reflect the impact of a reduced discount rate, which was offset by lower inflation assumptions of the liabilities of the Scottish Amicable and M&G schemes.

Costs of terminated AIA transaction

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

IFRS earnings per share