CHIEF FINANCIAL OFFICER'S OVERVIEW

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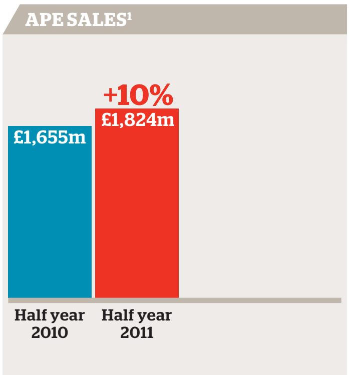
CHIEF FINANCIAL OFFICER



£1,069m
New business profit

59%
New business margin

Prudential has delivered another strong performance in the first six months of 2011 with excellent contributions from all of our businesses, across all of our key financial metrics. EEV new business profit ('new business profit') was up 20 per cent to £1,069 million (2010: £892 million[1]) and IFRS operating profit based on longer-term investment returns ('IFRS operating profit') increased 25 per cent to £1,058 million (2010: £845 million).

Net underlying free surplus generation in the period also improved by 15 per cent to £1,093 million (2010: £947 million). Prudential's ability to deliver on all of these metrics is testament to the quality of our businesses, our focus on prioritising value over volume and to our proactive management and allocation of capital.

Growth and profitability

In life insurance, APE sales in the first half of 2011 were up 10 per cent to £1,824 million (2010: £1,655 million[1]) and new business profit has increased by 20 per cent to £1,069 million (2010: £892 million[1]) as our new business margins reached 59 per cent (2010: 54 per cent[1]).

In the first half of 2011, Asia produced APE sales of £743 million (2010: £713 million[1]) and new business profit of £465 million (2010: £396 million[1]), up four per cent and 17 per cent respectively on the prior period. If we exclude India, a market which is undergoing significant change following regulatory developments in the second half of 2010, then APE sales and new business profit were up 17 per cent and 22 per cent respectively.

Jackson delivered APE sales of £672 million (2010: £560 million) and new business profit of £458 million (2010: £361 million), up 20 per cent and 27 per cent respectively on the prior period. The new business margin in the US increased from 64 per cent to 68 per cent in 2011, with Jackson continuing to capitalise on the weakened competitive environment in the US life insurance market. This margin improvement was driven by our continued focus on variable annuities where APE sales grew by 32 per cent to £589 million (2010: £447 million). Jackson remains a top three player in variable annuities, however, consistent with our value over volume philosophy, we do not target market share or sales volume and will continue to be opportunist in that market, aiming to maximise profits.

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

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CHIEF FINANCIAL OFFICER'S OVERVIEW

"In terms of profitability, we have successfully built on our momentum of the last few years and delivered a robust level of growth."

In the UK, we delivered total APE sales of £409 million (2010: £382 million) and new business profit of £146 million (2010: £135 million), up seven per cent and eight per cent respectively. We continue to prioritise the retail market while participating selectively in the wholesale market when returns meet our financial criteria. In the first half of 2011, we have written one bulk annuity contract that generated £28 million of APE and £24 million of new business profit. At a retail level, we delivered APE sales of £381 million (2010: £381 million) and new business profit of £123 million (2010: £134 million) at a margin of 32 per cent (2010: 35 per cent). The decline in retail margin is due to lower volumes of high margin individual annuities following the end of a partnership agreement and the effects of the change in the minimum retirement age from 50 to 55 in April 2010, which resulted in a temporary increase in sales last year, producing a particularly high 2010 comparative.

Across our life insurance businesses we grew our shareholder-backed policyholder liabilities by £6.4 billion in the first half of 2011 to £128.6 billion. This increase was driven by £5.0 billion of net inflows with the balance coming from foreign exchange and investment related and other movements.

In asset management, we have delivered £3.3 billion of net inflows over the first half of 2011 (2010: £4.4 billion). At the end of the first half, our total funds under management totalled £349.5 billion, of which £115.2 billion are external assets. M&G is the driver of our inflows in asset management, producing £2.9 billion (2010: £4.7 billion) of net flows in the period (£2.8 billion retail, £0.1 billion institutional), an excellent result. M&G's track record in generating positive net inflows is particularly notable, ranking number 1 in the UK retail market for the last ten consecutive quarters based on data to the end of March 2011[1]. At 30 June 2011 it had external funds under management of £93.4 billion, five per cent higher than at the beginning of the year. External funds comprise £45.6 billion (2010: £33.7 billion) of retail and £47.8 billion (2010: £41.9 billion) of institutional assets. Adding these funds to internal amounts, M&G's total funds under management were £203 billion. Asia asset management reported broadly neutral retail and institutional flows in the first half of 2011 (2010: inflows of £1.3 billion), despite the outflows experienced following the natural disaster in Japan earlier this year. At the end of the first half of 2011, Asia asset management had £52.5 billion of funds under management, of which £21.9 billion are external assets.

In terms of profitability, we have successfully built on our momentum of the last few years and delivered a robust level of growth, with Group IFRS operating profit up 25 per cent to £1,058 million (2010: £845 million) and Group EEV operating profit based on longer-term investment returns ('EEV operating profit') up 28 per cent to £2,147 million (2010: £1,677 million) equivalent to an annualised return on embedded value of 17 per cent (2010: 16 per cent).

In Asia, long-term business IFRS operating profit in the first half of 2011 was up 24 per cent to £326 million (2010: £262 million). This result benefited notably from strong performances in Indonesia, Malaysia and Singapore. The ongoing build-out of distribution across South-East Asia, the success of our health and protection rider strategy, and the underlying strength of the economies in which we operate should drive continuing growth in Asia IFRS operating profit going forward. Asia's long-term EEV operating profit, a measure of the economic value creation in the year, grew by 22 per cent in the first half of 2011 to £774 million (2010: £636 million) further underlining the creation of sustainable value by these operations.

Note
1 Fundscape Pridham Report

"Our strategy of deploying our capital to those products and geographies with the most attractive profitability characteristics has, over the past three years, transformed the capital position of our business."

In the US, long-term business IFRS operating profit was up 13 per cent in the first half of 2011 to £368 million (2010: £327 million). Jackson's growth in the variable annuity market is a key driver behind this improved profitability as separate account balances at 30 June 2011 of £36 billion (2010: £24 billion) were 50 per cent higher than the equivalent point in 2010 and 15 per cent higher than 31 December 2010 (£31 billion). The majority of asset growth since 31 December has come from £3.9 billion of net inflows in the period (2010: £2.8 billion). Jackson's general account has also contributed to the growth in IFRS profits during the period. The general account closed the period with policyholder liabilities of £29 billion and the average spread margin that we earned on these liabilities increased from 235 bps in half year 2010 to 262 bps in half year 2011. This included a £53 million benefit from transactions undertaken to more closely match the overall asset and liability duration (2010: £44 million). These actions also had the effect of improving the half year 2011 EEV operating profit by 25 per cent to £831 million (2010: £667 million).

In the UK long-term business IFRS operating profit was up by eight per cent from £307 million in half year 2010 to £332 million in half year 2011. This result benefited from an £18 million contribution from a bulk annuity contract. Our UK business continues to focus on the sustained delivery of IFRS profits. The strength of the with-profits fund, which currently has a surplus estate of £6.9 billion, provides a secure platform to support future IFRS profits and cash generation. At 20 per cent, growth in EEV operating earnings to £537 million (2010: £449 million) was in line with our strategy of optimising value from both new and existing business.

In asset management IFRS operating profit was up 34 per cent to £259 million compared to £194 million in half year 2010. M&G (including PruCap) had a strong first half benefiting from high inflows and rising markets, which drove operating profits higher by 39 per cent to £199 million (2010: £143 million). This increase results from the combination of higher revenues with increased operational leverage inherent within the business, which led to a lower cost-income ratio of 55 per cent (2010: 60 per cent). Asia asset management produced IFRS operating profit of £43 million, up 19 per cent on the prior period (2010: £36 million), benefiting from rising markets and disciplined management of costs with a cost-income ratio of 59 per cent (2010: 62 per cent).

Capital generation

Our strategy of deploying our capital to those products and geographies with the most attractive profitability characteristics has, over the past three years, transformed the capital position of our business. Across the Group, we continue to produce very significant amounts of free capital, which we measure as free surplus generated. Our first priority for the use of this capital is reinvestment in new business as we can achieve attractive internal rates of return (IRRs) and rapid paybacks on this investment. However, thanks to the scale and efficiency of our businesses, we have been able to produce significant amounts of free surplus over and above that which we can reinvest in new business. This excess free surplus generation is being used to continue to strengthen our balance sheet at a time when significant uncertainties exist in the world economy and to provide cash returns to our shareholders.

CHIEF FINANCIAL OFFICER'S OVERVIEW

"Asia is the priority destination when it comes to reinvesting our capital and Prudential Corporation Asia's (PCA) growth is not constrained by the supply of capital from the Group."

In the first half of 2011, we generated £1,390 million of underlying free surplus from our life in-force and asset management businesses, up eight per cent from £1,286 million in the first half of 2010. We reinvested £297 million of the free surplus generated in the period into writing new business. Asia is the priority destination when it comes to reinvesting our capital and Prudential Corporation Asia's (PCA) growth is not constrained by the supply of capital from the Group. In the US, we invest in an opportunistic manner reflecting the market and competitive environment at the time. In the UK, we take a selective approach and focus only on lines of business where we believe we have both the scale and expertise to compete successfully. In asset management, our businesses require minimal capital to fund growth. Thus, the split of the investment in new business in the first half of 2011 was £129 million into Asia, £135 million into the US and £33 million into the UK. The IRRs on this invested capital were more than 20 per cent in Asia, the US and the UK; with payback periods of four years, two years and five years respectively.

Of the remaining free surplus generated after reinvestment in new business, £690 million was remitted from the business units to Group. This cash was used to meet central costs of £106 million, service net interest payments of £135 million and meet dividend payments of £439 million. Furthermore, an aggregate £205 million was paid to the UK tax authorities following the settlement reached in the second half of 2010 and to secure new distribution agreements in Asia.

In January of 2011 we issued US$550 million Tier 1 subordinated notes raising £340 million net of transaction costs. We anticipate that the proceeds of this capital raising will be used to redeem the €500 million Tier 2 subordinated notes at the first call date in December of this year. Our central cash resources amounted to £1.5 billion at the end of the first half of 2011, comfortably above the £1 billion holding company cash buffer we seek to retain in anticipation of the redemption of the subordinated notes later in the year.

The remaining free surplus generated in the period was retained within our businesses and this will bolster local capital ratios, increasing long-term capital fungibility. The total free surplus balance deployed across our life and asset management operations increased from £3,338 million at the beginning of the period to £3,561 million at the end of the period.

'Growth and Cash' financial objectives

The following discussion contains forward-looking statements that involve inherent risks and uncertainties. Prudential's actual future financial condition or performance or other indicated results may differ materially from those indicated in any such forward-looking statement due to a number of important factors (including those discussed under the heading 'Risk factors' in the 2010 Annual Report). See the discussion under the heading 'Forward-looking statement' at the end of this report.

At our 2010 investor conference entitled 'Growth and Cash' we announced new financial objectives demonstrating our confidence in continued rapid growth in Asia, and increasing levels of cash remittances from all of our businesses. These objectives were defined as follows:

(i) Asia growth and profitability objectives[1]:
- To double the 2009 value of IFRS life and asset management pre-tax operating profit in 2013 (2009: £465 million); and
- To double the 2009 value of new business profits in 2013 (2009: £713 million).

(ii) Business unit cash remittance objectives[1]:
- Asia to deliver £300 million of net cash remittance to the Group in 2013 (2009: £40 million);
- Jackson to deliver £200 million of net cash remittance to the Group in 2013 (2009: £39 million); and
- UK to deliver £350 million of net cash remittance to the Group in 2013 (2009: £284 million[2]).

(iii) Cumulative net cash remittances[1]:
- All business units in aggregate to deliver cumulative net cash remittances of at least £3.8 billion over the period 2010 to end-2013. These net remittances are to be underpinned by a targeted level of cumulative underlying free surplus generation of £6.5 billion over the same period.

Notes

1 The objectives assume current exchange rates and a normalised economic environment consistent with the economic assumptions made by Prudential in calculating the EEV basis supplementary information for the half-year ended 30 June 2010. They have been prepared using current solvency rules and do not pre-judge the outcome of Solvency II, which remains uncertain.

2 Representing the underlying remittances excluding the £150 million impact of proactive financing techniques used to bring forward cash emergence of the in-force book during the financial crisis.

CHIEF FINANCIAL OFFICER'S OVERVIEW

"We believe we are on-track to achieve our growth and cash financial objectives."

As CFO, I would like to update you on our progress towards these objectives based on our results in the first half of 2011. We believe we are on-track to achieve our growth and cash financial objectives.

Asia profitability objectives

	Actual					Objective
	2009 £m	2010 £m	Change %	Half year 2011 £m	Change %	2013 £m
VALUE OF NEW BUSINESS						
Full year	713	901	26			1,426
Half year	277	395	43	465	18	
IFRS OPERATING PROFIT*						
Full year	465	604	30			930
Half year	228	295	29	367	24	

Business Unit net remittance objectives

	Actual			Objective
	2009 £m	2010 £m	Half year 2011 £m	2013 £m
Asia	40	233	105	300
Jackson	39	80	320	200
UK†	434	420	265	350
M&G‡	175	202	–	
Full year	688	935		
Half year	375	460	690	

Objectives for cumulative period 1 January 2010 to 31 December 2013

	Actual	Objective	Percentage achieved
	1 Jan 2010 to 30 Jun 2011 £m	1 Jan 2010 to 31 Dec 2013 £m	At 30 June 2011 %
CUMULATIVE NET CASH REMITTANCES FROM 2010 ONWARDS	1,625	3,800	43
CUMULATIVE UNDERLYING GROUP FREE SURPLUS GENERATION NET OF INVESTMENT IN NEW BUSINESS	2,807	6,500	43

*Total Asia operating profit from long-term business and asset management after development costs.

†In 2009, the net remittances from the UK include the £150 million in 2009 arising from the pro-active financing techniques used to bring forward cash emergence of the in-force book during the financial crisis. The 2010 net remittances include an amount of £120 million representing the releases of surplus and net financing payments.

‡Including Prudential Capital.

"The Group has continued to maintain a strong capital position."

In the first half of 2011 net remittances from business operations increased to £690 million, including £320 million from Jackson. Following the 2008 crisis, our approach of investing in relatively lower strain, higher return, faster payback business has enabled Jackson to rebuild its capital base, finance growth and now remit more cash. Remittances from the UK life operations continue to be underpinned by the with-profits business but also reflect positive cash-flows from the shareholder-backed business. Asia remittances continue to rise as the business matures and those from our UK asset management operations will be paid in the second half of the year.

Against the cumulative 2010 to 2013 target of £3.8 billion, by mid-2011 a total of £1,625 million has been remitted by business operations. We remain confident of achieving this target. Our confidence is underpinned by the strong net free surplus generation of our businesses which, by mid-2011, had generated a total of £2.8 billion against our 2010 to 2013 cumulative target of £6.5 billion.

Capital position, financing and liquidity

The Group has continued to maintain a strong capital position. At 30 June 2011, our IGD surplus is estimated at £4.1 billion (2010: £3.4 billion), with coverage a very strong 2.9 times the requirement. All of our subsidiaries maintain strong capital positions at the local regulatory level.

In addition to our strong capital position, on a statutory (Pillar 1) basis the total credit reserve for the UK shareholder annuity funds also contributes to protecting our capital position in excess of the IGD surplus. This credit reserve as at 30 June 2011 was unchanged at £1.8 billion. This represents 44 per cent of the portfolio spread over swaps, compared to 43 per cent at 31 December 2010.

Solvency II, which is expected to be implemented from 1 January 2013, represents a complete overhaul of the capital adequacy regime for European insurers. We are supportive of the risk-based approaches to capital management provided the metrics used are appropriate. Along with our European peers, we do have concerns about the potential volatility which Solvency II could introduce and the degree of prudence built in to the proposed calibrations for the standard formula. We are engaging directly with our peers, politicians and regulators to ensure a fair and reasonable outcome before the regime becomes law.

Our financing and liquidity position has remained strong throughout the period. As mentioned above, the next call on external financing is in December 2011 on the €500 million Tier 2 subordinated notes.

We continue to engage with rating agencies in order to provide insurance financial strength ratings for the Group. Prudential's senior debt is currently rated A+ by Standard & Poor's, A2 by Moody's and A by Fitch.

Embedded value

EEV shareholders' funds increased by four per cent during the first half of 2011 to £19.0 billion (31 December 2010: £18.2 billion). On a per share basis EEV at the end of 30 June 2011 stood at 745 pence, up from 715 pence at 31 December 2010.