INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Earned premiums, net of reinsurance	**9,518**	8,926	18,789
Investment return	**3,625**	(9,752)	(30,202)
Other income	**574**	453	1,146
Total revenue, net of reinsurance	**13,717**	(373)	(10,267)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(10,783)**	1,479	10,824
Acquisition costs and other operating expenditure	**(2,446)**	(1,763)	(2,459)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(84)**	(82)	(172)
Loss on sale of Taiwan agency business (note G)	**(559)**	-	-
Total charges, net of reinsurance	**(13,872)**	(366)	8,193
Loss before tax *(being tax attributable to shareholders' and policyholders' returns)**	**(155)**	(739)	(2,074)
Tax credit attributable to policyholders' returns	**79**	637	1,624
Loss before tax attributable to shareholders (note C)	**(76)**	(102)	(450)
Tax (charge) credit (note H)	**(103)**	625	1,683
Less: tax credit attributable to policyholders' returns	**(79)**	(637)	(1,624)
Tax (charge) credit attributable to shareholders' returns (note H)	**(182)**	(12)	59
Loss from continuing operations after tax / Loss for the period	**(258)**	(114)	(391)
Attributable to:			
Equity holders of the Company	**(254)**	(116)	(396)
Minority interests	**(4)**	2	5
Loss for the period	**(258)**	(114)	(391)

Earnings per share (in pence)	**Half year 2009**	Half year 2008	Full year 2008
Based on loss for the period attributable to the equity holders of the Company:			
Basic (note I)	**(10.2)p**	(4.7)p	(16.0)p

Diluted (note I)	**(10.2)p**	(4.7)p	(16.0)p

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Loss for the period	**(258)**	(114)	(391)
Other comprehensive income (loss):			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the period	**(292)**	32	391
Related tax	**(6)**	14	119
	(298)	46	510
Available-for-sale securities:			
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Unrealised holding gains (losses) arising during the period	**662**	(774)	(2,482)
Add back net losses included in the income statement on disposal and impairment	**146**	97	378
Total (note M)	**808**	(677)	(2,104)
Related change in amortisation of deferred income and acquisition costs	**(235)**	244	831
Related tax	**(150)**	148	442
	423	(285)	(831)
Other comprehensive income (loss) for the period, net of related tax	**125**	(239)	(321)
Total comprehensive loss for the period	**(133)**	(353)	(712)

Attributable to:			
Equity holders of the Company	**(129)**	(355)	(717)
Minority interests	**(4)**	2	5
Total comprehensive loss for the period	**(133)**	(353)	(712)

*This consolidated statement of comprehensive income has been introduced as a result of the adoption of amendments to IAS 1 'Presentation of Financial Statements: A Revised Presentation'. See note B.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 Jun 2008							
	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Minority interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Reserves								
Total comprehensive income (loss) for the period	-	-	(116)	46	(285)	(355)	2	(353)
Dividends	-	-	(304)	-	-	(304)	-	(304)
Reserve movements in respect of share-based payments	-	-	14	-	-	14	-	14
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	(6)	(6)
Share capital and share premium								
New share capital subscribed	1	136	-	-	-	137	-	137
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(126)	126	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	6	-	-	6	-	6
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(8)	-	-	(8)	-	(8)
Net increase (decrease) in equity	1	10	(282)	46	(285)	(510)	(4)	(514)
At beginning of period	123	1,828	4,301	(112)	(78)	6,062	102	6,164
At end of period	124	1,838	4,019	(66)	(363)	5,552	98	5,650

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 Dec 2008

	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Minority interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Reserves								
Total comprehensive income (loss) for the year	-	-	(396)	510	(831)	(717)	5	(712)
Dividends	-	-	(453)	-	-	(453)	(2)	(455)
Reserve movements in respect of share-based payments	-	-	18	-	-	18	-	18
Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds	-	-	-	-	-	-	(50)	(50)
Share capital and share premium								
New share capital subscribed	2	168	-	-	-	170	-	170
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(156)	156	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	3	-	-	3	-	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(25)	-	-	(25)	-	(25)
Net increase (decrease) in equity	2	12	(697)	510	(831)	(1,004)	(47)	(1,051)
At the beginning of the year	123	1,828	4,301	(112)	(78)	6,062	102	6,164
At end of year	125	1,840	3,604	398	(909)	5,058	55	5,113

As a result of the introduction of the consolidated statement of comprehensive income there has been a reclassification of £240 million of exchange losses from the Available-for-sale securities reserve to the Translation reserve in the 2008 full year comparatives as explained in note B.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Assets			
Intangible assets attributable to shareholders:			
Goodwill	**1,310**	1,341	1,341
Deferred acquisition costs and other intangible assets (note P)	**4,045**	3,290	5,349
	5,355	4,631	6,690
Intangible assets attributable to with-profits funds:			
In respect of acquired subsidiaries for venture fund and other investment purposes	**159**	174	174
Deferred acquisition costs and other intangible assets	**111**	18	126
	270	192	300
Total	**5,625**	4,823	6,990
Other non-investment and non-cash assets:			
Property, plant and equipment	**428**	1,038	635
Reinsurers' share of insurance contract liabilities	**1,114**	971	1,240
Deferred tax asset (note H)	**2,149**	1,250	2,886
Current tax recoverable	**389**	244	657
Accrued investment income	**2,366**	2,209	2,513
Other debtors	**1,311**	1,108	1,232
Total	**7,757**	6,820	9,163
Investments of long-term business and other operations:			
Investment properties	**10,479**	13,529	11,992
Investments accounted for using the equity method	**6**	16	10
Financial investments:			
Loans (note K)	**8,613**	8,719	10,491
Equity securities and portfolio holdings in unit trusts	**56,069**	75,876	62,122
Debt securities (note L)	**89,399**	83,806	95,224
Other investments	**6,085**	4,528	6,301
Deposits	**8,806**	8,194	7,294
Total	**179,457**	194,668	193,434

Properties held for sale	**5**	-	-
Cash and cash equivalents	**6,542**	4,844	5,955
Total assets (note D)	**199,386**	211,155	215,542

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Equity and liabilities			
Equity			
Shareholders' equity	**4,720**	5,552	5,058
Minority interests	**29**	98	55
Total equity	**4,749**	5,650	5,113
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds			
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**165,047**	169,113	173,977
Unallocated surplus of with-profits funds	**7,061**	12,560	8,414
Total	**172,108**	181,673	182,391
Core structural borrowings of shareholder-financed operations:			
Subordinated debt	**2,198**	1,603	1,987
Other	**701**	923	971
Total (note N)	**2,899**	2,526	2,958
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations (note O)	**2,855**	2,908	1,977
Borrowings attributable to with-profits operations (note O)	**1,349**	937	1,308
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements	**4,218**	5,053	5,572
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,706**	3,755	3,843
Current tax liabilities	**663**	952	842

Deferred tax liabilities (note H)	**2,651**	2,843	3,229
Accruals and deferred income	**626**	773	630
Other creditors	**1,640**	1,956	1,496
Provisions	**614**	488	461
Derivative liabilities	**1,379**	723	4,832
Other liabilities	**929**	918	890
Total	**15,426**	17,461	21,795
Total liabilities	**194,637**	205,505	210,429
Total equity and liabilities (note D)	**199,386**	211,155	215,542

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Cash flows from operating activities			
Loss before tax *(being tax attributable to shareholders' and policyholders' returns)* (note (i))	**(155)**	(739)	(2,074)
Changes in operating assets and liabilities (note (ii))	**1,068**	1,236	3,978
Other items (note (ii))	**633**	(325)	(760)
Net cash flows from operating activities	**1,546**	172	1,144
Cash flows from investing activities			
Net cash flows from purchases and disposals of property, plant and equipment	**(22)**	(55)	(229)
Disposal of Taiwan agency business (notes (iii) and G)	**(436)**	-	-
Net cash flows from investing activities	**(458)**	(55)	(229)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations (notes (iv) and N):			
Issue of subordinated debt, net of costs	**379**	-	-
Redemption of senior debt	**(249)**	-	-
Interest paid	**(98)**	(91)	(167)
With-profits operations (notes (v) and O):			
Interest paid	**(9)**	(9)	(9)
Equity capital (note (vi)):			
Issues of ordinary share capital	**-**	10	12
Dividends paid	**(226)**	(177)	(297)
Net cash flows from financing activities	**(203)**	(267)	(461)
Net increase (decrease) in cash and cash equivalents	**885**	(150)	454
Cash and cash equivalents at beginning of period	**5,955**	4,951	4,951
Effect of exchange rate changes on cash and cash equivalents	**(298)**	43	550
Cash and cash equivalents at end of period (note (vii))	**6,542**	4,844	5,955

Notes

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

(ii) The adjusting items to loss before tax include changes in operating assets and liabilities, and other items including adjustments in respect of non-cash items, together with operational interest receipts and payments, dividend receipts, and tax paid. The figure of £633 million for other items at half year 2009 includes £559 million for the loss on disposal of Taiwan agency business. The most significant elements of the adjusting items within changes in operating assets and liabilities are as follows:

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Deferred acquisition costs (excluding changes taken directly into equity)	**226**	(464)	(1,149)
Other non-investment and non-cash assets	**(234)**	(742)	(510)
Investments	**(841)**	9,166	33,255
Policyholder liabilities (including unallocated surplus)	**2,265**	(9,194)	(26,987)
Other liabilities (including operational borrowings)	**(348)**	2,470	(631)
Changes in operating assets and liabilities	**1,068**	1,236	3,978

(iii) The amount of £436 million in respect of the disposal of the Taiwan agency business shown above, represents the cash and cash equivalents of £388 million held by Taiwan agency business transferred on disposal and restructuring costs paid in cash in the period of £3 million. In addition, the cashflow for the disposal includes a £45 million outflow to purchase a 9.99 per cent stake in China Life.

(vi) Structural borrowings of shareholder-financed operations comprise core debt of the holding company and Jackson surplus notes. Core debt excludes borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities. In May 2009, the Company repaid maturing £249 million senior debt. In the same month, the Company issued £400 million subordinated debt in part to replace the maturing debt.

(v) Structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(vi) Cash movements in respect of equity capital exclude scrip dividends.

(vii) Of the cash and cash equivalents amounts reported above, £638 million (half year 2008: £361 million; full year 2008: £165 million) were held centrally.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

NOTES ON THE IFRS BASIS RESULTS

A Basis of preparation and audit status

These condensed consolidated interim financial statements for the six months ended 30 June 2009 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or changed IFRS that are already endorsed by the European Union (EU) or that are applicable or available for early adoption for the next annual financial statements and other policy improvements.

The IFRS basis results for the 2009 and 2008 half years are unaudited. Except for any effects from the adoption of new accounting pronouncements explained in note B, the 2008 full year IFRS basis results have been derived from the 2008 statutory accounts. The auditors have reported on the 2008 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

B Significant accounting policies

The accounting policies applied by the Group in determining the IFRS basis results in this announcement are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2008, except for the following adoption of new accounting pronouncements in 2009:

IFRS 8, 'Operating Segments'
IFRS 8 superseded IAS 14 'Segment Reporting' for the accounting periods beginning on or after 1 January 2009. IFRS 8 requires the Group to adopt the 'management approach' to reporting the financial performance of its operating segments. IFRS 8 is a disclosure standard but some of its disclosures are required by IAS 34 to be made in this announcement. This standard has no impact on the results or financial position of the Group.

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

An operating segment is a component of the Group 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 the Group'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 Group's operating segments as determined under IFRS 8 are insurance operations split by territories in which the Group conducts business, which are Asia, the United States and the United Kingdom and asset management operations which have been split into M&G which is the Group's UK and European asset management business, the Asian asset management business and the US broker-dealer and asset management business (including Curian). 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. This is consistent with how the Group has been presenting its results in its supplementary analysis of profit before tax attributable to shareholders. This supplementary analysis of profit which also reflects the Group's IFRS 8's segmental income statement is disclosed in note C 'segment disclosure - income statement'. The Group's segmental statement of financial position is as disclosed in note D (i).

Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation'
The revised version of IAS 1, which includes non-mandatory changes to the titles of some of the financial statements, has resulted in a number of changes in presentation and disclosure.

As a result of the adoption of this revised IAS 1, the Group has changed the titles of its "consolidated balance sheet" to "consolidated statement of financial position" and its "consolidated cash flow statement" to "consolidated statement of cash flows".

The Group has also introduced a consolidated statement of comprehensive income in accordance with the revised IAS 1. Components of comprehensive income recognised outside of the income statement, for example exchange movements and the unrealised valuation movement of Jackson's available-for-sale debt securities, are now presented separately from changes in equity and are disclosed in the statement of comprehensive income. Consequent to this presentational change, the Group has altered the exchange translation method of the unrealised valuation movement of Jackson's available-for-sale debt securities from the previous application of closing exchange rate to the average exchange rate consistent with the translation method of foreign subsidiaries' income statement items. Accordingly, the Group's 2008 full year comparatives in the consolidated statement of comprehensive income and the consolidated statement of changes in equity have been altered with a reclassification of £240 million of exchange losses from the unrealised valuation movement of Jackson's available-for-sale debt securities, net of related change in amortisation of deferred income and acquisition costs and tax to the exchange translation reserve. There is no impact on shareholders' equity or the income statement from this change. No change has been made to the 2008 half year comparatives as there is no material impact.

Improvements to IFRSs
The improvements issued by the IASB in May 2008 include amendments to a number of standards. The only amendment that has impacted the Group's financial statements is the amendment to IAS 40, 'Investment property' (and consequential amendments to IAS 16, 'Property, Plant and Equipment') which now states that property that is under construction or development for future use as investment property is within the scope of IAS 40 and so should be measured at fair value where this is reliably measurable. Previously, these properties were within the scope of IAS 16 and were measured at cost.

As a result of this amendment, at half year 2009, the Group has reclassified its properties under development for future use as investment properties from Property, plant and equipment to Investment properties. This amendment is effective on a prospective application basis from 1 January 2009 and accordingly, no adjustment to the 2008 comparatives has been made. At 1 January 2009, properties under development with a cost of £131 million were reclassified to Investment properties and revalued to a fair value of £152 million. The fair value adjustment of a gain of £21 million was recorded in the income statement but as the relevant properties were held by the PAC with-profits fund, the gain was absorbed by the liability for unallocated surplus and has no direct effect on the profit or loss attributable to shareholders or shareholders' equity.

Improving Disclosures about Financial Instruments (Amendments to IFRS 7)
In March 2009, the IASB issued amendments to IFRS 7 which require enhanced disclosures about fair value measurements and liquidity risk. The amendments include the introduction of a three-level hierarchy for fair value measurement disclosures and require additional disclosures about the relative reliability of fair value measurements. These disclosures are mandatory in the Group's 2009 full year financial statements and will be provided therein.

In addition, the Group has also adopted the following accounting pronouncements in 2009 but their adoption has had no material impact on results and financial position of the Group:

- *Amendments to IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations'*
- *Amendments to IAS 23 'Borrowing costs'*

- *Amendments to IAS 32, 'Financial instruments: Presentation' and IAS 1, 'Presentation of financial statements' - Puttable Financial Instruments and Obligations Arising on Liquidation'*
- *IFRIC 16, 'Hedges of a net investment in a foreign operation'*

C Segment disclosure - income statement

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Asian operations (note i)			
Insurance operations (note E(i)):			
Underlying results before exceptional credit	**149**	75	257
Exceptional credit for Malaysia operations (note E(i))	**63**	-	-
Total Asian insurance operations	**212**	75	257
Development expenses	**(5)**	(3)	(26)
Total Asian insurance operations after development expenses	**207**	72	231
Asian asset management	**21**	29	52
Total Asian operations	**228**	101	283
US operations			
Jackson (US insurance operations)	**217**	232	406
Broker-dealer and asset management (note ii)	**2**	6	7
Total US operations	**219**	238	413
UK operations			
UK insurance operations:			
Long-term business (note E(iii))	**303**	272	545
General insurance commission (note (iii))	**27**	14	44
Total UK insurance operations	**330**	286	589
M&G	**102**	146	286
Total UK operations	**432**	432	875
Total segment profit	**879**	771	1,571
Other income and expenditure			
Investment return and other income	**13**	72	89
Interest payable on core structural borrowings	**(84)**	(82)	(172)
Corporate expenditure:			

Group Head Office	**(74)**	(79)	(130)
Asia Regional Head Office	**(23)**	(17)	(41)
Charge for share-based payments for Prudential schemes (note (iv))	**(11)**	(4)	(6)
Total	**(179)**	(110)	(260)
Restructuring costs (note (v))	**(12)**	(14)	(28)
Operating profit based on longer-term investment returns (note (i))	**688**	647	1,283
Short-term fluctuations in investment returns on shareholder-backed business (note F)	**(80)**	(617)	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note (vi))	**(63)**	(92)	(13)
Loss on sale and results for Taiwan agency business (notes (i) and G)	**(621)**	(40)	1
Loss from continuing operations before tax attributable to shareholders	**(76)**	(102)	(450)

Notes

(i) Sale of Taiwan agency business: In order to facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the Taiwan business for which the sale process was completed in June 2009 are included separately within the supplementary analysis of profit.

(ii) The US broker-dealer and asset managements results includes Curian losses of £3 million (half year 2008: nil; full year 2008: £3 million).

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

(iv) The charge for share-based payments for Prudential schemes is for the SAYE and Group performance-related schemes.

(v) Restructuring costs are incurred for UK insurance operations (£7 million) and central operations (£5 million).

(vi) The shareholders' share of actuarial and other gains and losses on deferred benefit pension schemes reflects the aggregate of actual less expected returns on scheme assets, experience gains and losses, the effect of changes in assumptions, and altered provisions for deficit funding, where relevant.

Determining operating segments and performance measure of operating segments

The Group's operating segments under IFRS 8 are determined as described in note B. The operating segments are:

Insurance operations
- Asia
- US (Jackson)
- UK

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

The performance measure of operating segments utilised by the directors is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measure excludes the recurrent items of short-term fluctuations in investment returns and the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes. In addition, for half year 2009 this measure excludes the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns (see note F). In the first half of 2009 the Company sold its Taiwan agency business. In order to facilitate comparisons on a like for like basis, the loss on sale and the results of the Taiwan agency business during the period of ownership (including those for the 2008 comparatives) are shown separately within the supplementary analysis of profit.

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

(a)Debt and equity securities

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

(b)Derivative value movements

Value movements for Jackson's equity-based derivatives and variable annuity product embedded derivatives are included in operating profits based on longer-term investment returns. The inclusion of these movements is so as to broadly match with the results on the Jackson variable annuity book that pertain to equity market movements.

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

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

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

- Unit linked and US variable annuity business. For such business the policyholder liabilities are directly reflective of the asset value movements. Accordingly all asset value movements are recorded in the operating results based on longer-term investment returns.

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

(c)Liabilities to policyholders and embedded derivatives for product guarantees
Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities are broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the 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 return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

(i) Asia

- *Vietnamese participating business*

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

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

- *Non-participating business*

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

- *Guaranteed Minimum Death Benefit (GMDB) product features*

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

(ii) US operations - Embedded derivatives for variable annuity guarantee features
Under IFRS, the Guaranteed Minimum Withdrawal Benefit (GMWB) and Guaranteed Minimum Income Benefit (GMIB) reinsurance are required to be fair valued as embedded derivatives. The movements in carrying values are affected by changes in the level of observed implied equity volatility and changes to the discount rate applied from period to period.

For these embedded derivatives the discount rate applied reflects AA corporate bond 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 AA corporate bond rate curves.

(iii) UK shareholder-backed annuity business

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

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

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

(d) *Fund management and other non-insurance businesses*

For these businesses, where the business model is more conventional than that for life assurance, it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses (including impairments) in the operating result with unrealised gains and losses being included in short-term fluctuations. In some instances it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying substance of the arrangements.

Additional segmental analysis of revenue

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

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

	Half year 2008				
	Asia	US	UK	Intragroup	Total
	£m	£m	£m	£m	£m

Revenue from external customers :					
Insurance operations	2,809	2,749	3,355	-	8,913
Asset management	106	211	249	(136)	430
Unallocated corporate	-	-	36	-	36
Intragroup revenue eliminated on consolidation	(36)	(24)	(76)	136	0
Total revenue from external customers	2,879	2,936	3,564	-	9,379

	Full year 2008				
	Asia	US	UK	Intragroup	Total
	£m	£m	£m	£m	£m
Revenue from external customers:					
Insurance operations	5,348	5,955	7,711	(10)	19,004
Asset management	202	414	497	(280)	833
Unallocated corporate	-	-	61	-	61
Intragroup revenue eliminated on consolidation	(73)	(45)	(172)	290	-
Total revenue from external customers	5,477	6,324	8,097	-	19,898

Revenue from external customers is made up of the following:

	Half year 2009	Half year 2008	Full year 2008
	£m	£m	£m
Earned premiums, net of reinsurance	**9,518**	8,926	18,789
Fee income from investment contract business and asset management (included within 'Other income')	**574**	453	1,109
Total revenue from external customers	**10,092**	9,379	19,898

In their capacity as fund managers to fellow Prudential Group subsidiaries, M&G, the US and the Asian asset management businesses earns fees for investment management and related services. These fees totalled £122 million in half year 2009 (half year 2008: £136 million; and full year 2008: £280 million) and are included in the asset management segment above. In half year 2009, the remaining £8 million (half year 2008: nil; full year 2008: £10 million) of intragroup revenue was recognised by UK insurance operations. These services are charged at appropriate arm's length prices, typically priced as a percentage of funds under management.

D Group statement of financial position analysis

(i) Group statement of financial position

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

Insurance operations	**Total insurance operations**	**Asset management operations**	**Unallocated to a segment (central**	**Intra-group**	**30 Jun 2009 Group**	**30 Jun 2008 Group**	**31 Dec 2008 Group**

	UK £m	US £m	Asia £m	£m	(note (a)) £m	operations) £m	eliminations £m	total £m	total £m	total £m
Assets										
Intangible assets attributable to shareholders:										
Goodwill (note (b))	-	-	80	80	1,230	-	-	**1,310**	1,341	1,341
Deferred acquisition costs and other intangible assets (note P)	132	3,259	648	4,039	6	-	-	**4,045**	3,290	5,349
Total	132	3,259	728	4,119	1,236	-	-	**5,355**	4,631	6,690
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	159	-	-	159	-	-	-	**159**	174	174
Deferred acquisition costs and other intangible assets	13	-	98	111	-	-	-	**111**	18	126
Total	172	-	98	270	-	-	-	**270**	192	300
Total	304	3,259	826	4,389	1,236	-	-	**5,625**	4,823	6,990
Deferred tax assets	385	1,363	101	1,849	144	156	-	**2,149**	1,250	2,886
Other non investment and non-cash assets	4,081	1,315	1,466	6,862	753	3,457	(5,464)	**5,608**	5,570	6,277
Investment of long term business and other operations:										
Investment properties	10,455	12	12	10,479	-	-	-	**10,479**	13,529	11,992
Investments accounted for using the equity method	-	-	-	-	-	6	-	**6**	16	10
Financial investments:										
Loans (note K)	1,689	4,295	1,095	7,079	1,534	-	-	**8,613**	8,719	10,491
Equity securities and portfolio holdings in unit trusts	32,853	14,984	8,160	55,997	72	-	-	**56,069**	75,876	62,122
Debt securities (note L)	59,231	20,896	8,294	88,421	978	-	-	**89,399**	83,806	95,224
Other investments	4,216	1,103	191	5,510	358	217	-	**6,085**	4,528	6,301
Deposits	7,668	577	539	8,784	22	-	-	**8,806**	8,194	7,294
Total Investments	116,112	41,867	18,291	176,270	2,964	223	-	**179,457**	194,668	193,434
Properties held-for sale	5	-	-	5	-	-	-	**5**	-	-
Cash and cash equivalents	2,873	343	1,142	4,358	1,546	638	-	**6,542**	4,844	5,955
Total assets	**123,760**	**48,147**	**21,826**	**193,733**	**6,643**	**4,474**	**(5,464)**	**199,386**	211,155	215,542

	Insurance operations									
	UK £m	US £m	Asia £m	Total insurance operations £m	Asset management operations (note (a)) £m	Unallocated to a segment (central operations) £m	Intra-group eliminations £m	30 Jun 2009 Group total £m	30 Jun 2008 Group total £m	31 Dec 2008 Group total £m

Equity and liabilities										
Equity										
Shareholders' equity	1,749	2,046	1,576	5,371	1,637	(2,288)	-	**4,720**	5,552	5,058
Minority interests	26	-	2	28	1	-	-	**29**	98	55
Total equity	1,775	2,046	1,578	5,399	1,638	(2,288)	-	**4,749**	5,650	5,113
Liabilities										
Policyholder liabilities and unallocated surplus of with profits funds:										
Contract liabilities including amounts in respect of contracts classified as investment contracts under IFRS 4)	105,369	41,492	18,186	165,047	-	-	-	**165,047**	169,113	173,977
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with profits funds)	7,015	-	46	7,061	-	-	-	**7,061**	12,560	8,414
Total policyholder liabilities and unallocated surplus of with profits funds	112,384	41,492	18,232	172,108	-	-	-	**172,108**	181,673	182,391
Core structural borrowings of shareholder financed operations:										
Subordinated debt	-	-	-	-	-	2,198	-	**2,198**	1,603	1,987
Other	-	152	-	152	-	549	-	**701**	923	971
Total (note N)	-	152	-	152	-	2,747	-	**2,899**	2,526	2,958
Operational borrowings attributable to shareholder financed operations (note O)	28	297	133	458	5	2,392	-	**2,855**	2,908	1,977
Borrowings attributable to with-profits operations (note O)	1,349	-	-	1,349	-	-	-	**1,349**	937	1,308
Deferred tax liabilities	1,198	1,075	352	2,625	7	19	-	**2,651**	2,843	3,229
Other non-insurance liabilities	7,026	3,085	1,531	11,642	4,993	1,604	(5,464)	**12,775**	14,618	18,566
Total liabilities	121,985	46,101	20,248	188,334	5,005	6,762	(5,464)	**194,637**	205,505	210,429
Total equity and liabilities	**123,760**	**48,147**	**21,826**	**193,733**	**6,643**	**4,474**	**(5,464)**	**199,386**	211,155	215,542

(a) *Asset management operations*

	M&G £m	US £m	Asia £m	**Total 30 Jun 2009 £m**	Total 30 Jun 2008 £m	Total 31 Dec 2008 £m
Assets						
Intangible assets:						
Goodwill	1,153	16	61	**1,230**	1,230	1,230
Deferred acquisition costs	6	-	-	**6**	5	6
Total	1,159	16	61	**1,236**	1,235	1,236
Other non-investment and non-cash assets	665	145	87	**897**	425	295

Loans (note K)	1,534	-	-	**1,534**	2,488	1,763
Equity securities and portfolio holdings in unit trusts	65	-	7	**72**	24	23
Debt securities (note L)	966	-	12	**978**	1,024	991
Other investments	352	4	2	**358**	159	462
Deposits	7	5	10	**22**	135	64
Total investments	2,924	9	31	**2,964**	3,830	3,303
Cash and cash equivalents (note (iii))	1,434	28	84	**1,546**	1,779	1,472
Total assets	6,182	198	263	**6,643**	7,269	6,306
Equity and liabilities						
Equity						
Shareholders' equity (note (i))	1,331	101	205	**1,637**	1,618	1,642
Minority interests	1	-	-	**1**	54	1
Total equity	1,332	101	205	**1,638**	1,672	1,643
Liabilities						
Intra-group debt represented by operational borrowings at Group level (note (ii))	2,392	-	-	**2,392**	2,321	1,278
Net asset value attributable to external holders of consolidated funds (note (iii))	524	-	-	**524**	1,474	1,065
Other non-insurance liabilities	1,934	97	58	**2,089**	1,802	2,320
Total liabilities	4,850	97	58	**5,005**	5,597	4,663
Total equity and liabilities	6,182	198	263	**6,643**	7,269	6,306

Notes

(i) M&G shareholders' equity include those in respect of Prudential Capital

(ii) Intra Group debt represented by operational borrowings at Group level

Operational borrowings for M&G are in respect of Prudential Capital's short-term fixed income security programme and comprise £2,385 million (30 June 2008: £2,314 million; 31 Dec 2008: £1,269 million) of commercial paper and £7 million (30 June 2008: £7 million; 31 Dec 2008: £9 million) of medium-term notes, see note O.

(iii) Consolidated investment funds

The M&G statement of financial position shown above includes investment funds which are managed on behalf of third parties. In respect of the consolidated investment funds, the statement of financial position includes cash and cash equivalents of £278 million and net asset value attributable to external unit holders of £524 million which are non-recourse to M&G and the Group.

(b) Goodwill attributable to shareholders

Goodwill attributable to shareholders has decreased from £1,341 million at 31 December 2008 to £1,310 million at 30

June 2009 due to the write-off of the goodwill of £44 million relating to the sold Taiwan agency business offset by additional consideration paid in relation to other Asian subsidiaries.

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

		Shareholder-backed business							
	Participating funds	**Unit-linked and variable annuity**	**Non-linked business**	**Asset management operations**	**Unallocated to a segment (central operations)**	**Intra-group eliminations**	**30 Jun 2009 Group total**	**30 Jun 2008 Group total**	**31 Dec 2008 Group total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets									
Intangible assets attributable to shareholders:									
Goodwill	-	-	80	1,230	-	-	**1,310**	1,341	1,341
Deferred acquisition costs and other intangible assets	-	-	4,039	6	-	-	**4,045**	3,290	5,349
Total	-	-	4,119	1,236	-	-	**5,355**	4,631	6,690
Intangible assets attributable to with profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	159	-	-	-	-	-	**159**	174	174
Deferred acquisition costs and other intangible assets	111	-	-	-	-	-	**111**	18	126
Total	270	-	-	-	-	-	**270**	192	300
Total	270	-	4,119	1,236	-	-	**5,625**	4,823	6,990
Deferred tax assets	240	-	1,609	144	156	-	**2,149**	1,250	2,886
Other non-investment and non-cash assets	2,920	601	3,341	753	3,457	(5,464)	**5,608**	5,570	6,277
Investment of long term business and other operations:									
Investment properties	8,507	616	1,356	-	-	-	**10,479**	13,529	11,992
Investments accounted for using the equity method	-	-	-	-	6	-	**6**	16	10
Financial investments:									
Loans (note K)	1,781	47	5,251	1,534	-	-	**8,613**	8,719	10,491
Equity securities and portfolio holdings in unit trusts	26,098	29,295	604	72	-	-	**56,069**	75,876	62,122
Debt securities (note L)	41,753	6,763	39,905	978	-	-	**89,399**	83,806	95,224
Other investments	3,917	235	1,358	358	217	-	**6,085**	4,528	6,301
Deposits	6,300	780	1,704	22	-	-	**8,806**	8,194	7,294
Total Investments	88,356	37,736	50,178	2,964	223	-	**179,457**	194,668	193,434
Properties held-for-sale	2	3	-	-	-	-	**5**	-	-
Cash and									

cash equivalents	1,835	1,102	1,421	1,546	638	-	**6,542**	4,844	5,955
Total assets	**93,623**	**39,442**	**60,668**	**6,643**	**4,474**	**(5,464)**	**199,386**	211,155	215,542

		Shareholder-backed business							
	Participating funds	Unit-linked and variable annuity	Non-linked business	Asset management operations	Unallocated to a segment (central operations)	Intra-group eliminations	30 Jun 2009 Group total	30 Jun 2008 Group total	31 Dec 2008 Group total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Equity and liabilities									
Equity									
Shareholders' equity	-	-	5,371	1,637	(2,288)	-	**4,720**	5,552	5,058
Minority interests	26	-	2	1	-	-	**29**	98	55
Total equity	26	-	5,373	1,638	(2,288)	-	**4,749**	5,650	5,113
Liabilities									
Policyholder liabilities and unallocated surplus of with profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	79,291	38,299	47,457	-	-	-	**165,047**	169,113	173,977
Unallocated surplus of with profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	7,061	-	-	-	-	-	**7,061**	12,560	8,414
Total policyholder liabilities and unallocated surplus of with profits funds	86,352	38,299	47,457	-	-	-	**172,108**	181,673	182,391
Core structural borrowings of shareholder-financed operations:									
Subordinated debt	-	-	-	-	2,198	-	**2,198**	1,603	1,987
Other	-	-	152	-	549	-	**701**	923	971
Total	-	-	152	-	2,747	-	**2,899**	2,526	2,958
Operational borrowings attributable to shareholder financed operations	-	-	458	5	2,392	-	**2,855**	2,908	1,977
Borrowings attributable to with-profits operations	1,349	-	-	-	-	-	**1,349**	937	1,308
Deferred tax liabilities	1,012	-	1,613	7	19	-	**2,651**	2,843	3,229
Other non-insurance liabilities	4,884	1,143	5,615	4,993	1,604	(5,464)	**12,775**	14,618	18,566
Total liabilities	93,597	39,442	55,295	5,005	6,762	(5,464)	**194,637**	205,505	210,429
Total equity and liabilities	**93,623**	**39,442**	**60,668**	**6,643**	**4,474**	**(5,464)**	**199,386**	211,155	215,542

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

(i) Asian insurance operations: exceptional credit of £63 million regarding the liability measurement for Malaysia long-term business

For the Malaysia life business, under the basis applied previously, 2008 IFRS basis liabilities were determined on the local regulatory basis using prescribed interest rates such that a high degree of prudence resulted. As of 1 January 2009, the local regulatory basis has been replaced by the Malaysian authority's risk-based capital (RBC) framework. In the light of this development; the Company has re-measured the liabilities by reference to the method applied under the new RBC framework, which is more realistic than the previous approach, but with an overlay constraint to the method such that negative reserves derived at an individual policyholder level are not included. This change has resulted in a one-off release from liabilities at 1 January 2009 of £63 million.

(ii) US insurance operations

There were no changes of assumptions that had a material impact on the half year 2009 results of the US insurance operations.

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

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. The valuation rate that is applied includes a liquidity premium that reflects the residual element of current bond spreads over swap rates after providing for the credit risk.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL based on the asset mix at the balance sheet dates are shown below. The credit quality of debt securities held by UK annuity and other shareholder backed non-linked long-term business is shown in note L(i).

30 June 2009	**Pillar I regulatory basis (bps)**	**Adjustment from regulatory to IFRS basis (bps)**	**IFRS (bps)**
Bond spread over swap rates (note (i))	275	-	275

Credit risk allowance			
Long-term expected defaults (note (ii))	24	-	24
Long-term credit risk premium (note (iii))	15	-	15
Short-term allowance for credit risk (note (iv))	46	(28)	18
Total credit risk allowance	85	(28)	57
Liquidity premium	190	28	218

30 June 2008	Pillar I regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates (note (i))	132	-	132
Credit risk allowance			
Long-term expected defaults (note (ii))	15	-	15
Long-term credit risk premium (note (iii))	11	(5)	6
Short-term allowance for credit risk (note (iv))	19	(17)	2
Total credit risk allowance	45	(22)	23
Liquidity premium	87	22	109

31 December 2008	Pillar I Regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates (note (i))	323	-	323
Credit risk allowance			
Long-term expected defaults (note (ii))	15	-	15
Long-term credit risk premium (note (iii))	11	-	11
Short-term allowance for credit risk (note (iv))	54	(25)	29
Total credit risk allowance	80	(25)	55
Liquidity premium	243	25	268

Notes

(i) Bond spread over swap rates reflect market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2004 uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating on the annuity asset portfolio. The credit rating assigned to each asset held is based on external credit rating and for this purpose the credit rating assigned to each asset held is the lowest credit rating published by Moody's, Standard and Poors and Fitch. The increase in this assumption during 2009 reflects the downgrades that have occurred during the year.

(iii) The long-term credit risk premium provides compensation against the risk of potential volatility in the level of defaults and is derived by applying the 95th percentile from Moody's data from 1970 to 2004 to the annuity asset portfolio. The increase in this assumption during 2009 reflects the downgrades that have occurred during the year.

(iv) During the second half of 2007, corporate bond spreads widened significantly and the methodology was reviewed to ensure that it still made appropriate allowance for credit risk. As a result of this review a short-term allowance for credit risk was established in the Pillar I reserves at 31 December 2007 to allow for the concern that credit ratings applied by rating agencies to individual bonds might be over optimistic and that default experience in the short-term might be higher than the long-term assumptions.

The short-term allowance for credit risk assumed in the Pillar I solvency valuations at 31 December 2007, 30 June 2008 and 31 December 2008 were determined as 25 per cent of the increase in corporate bond spreads (as estimated from the movements in published corporate bond indices) since 31 December 2006. During 2009 the short-term allowance for credit risk has not been derived by reference to credit spreads; rather it has been reduced in order to offset the impact of actual downgrades during the period on the long-term assumption, and increased to eliminate the positive experience variance that would otherwise have arisen from the small number of actual defaults observed in the period.

The very prudent Pillar I regulatory basis reflects the overriding objective of ensuring sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS, on the other hand, aims to establish liabilities that are closer to 'best estimate'. In years prior to 2008 long-term IFRS default assumptions had been set mid-way between the EEV and Pillar I assumptions. At 31 December 2008, in light of the increased uncertainty surrounding future credit default experience, the IFRS long-term assumptions was strengthened to bring them into line with the long-term Pillar I default assumptions. In addition a short-term allowance for credit risk was established but at a lower level than allowed for in the Pillar I regulatory basis.

During 2009 the IFRS long-term assumptions have been increased in line with the changes to the Pillar I long-term assumptions, and the short-term allowance for credit risk has been reduced in order to offset the impact of actual downgrades during the period on the long-term assumptions, and increased to eliminate the positive experience variance that would otherwise have arisen from the small number of actual defaults observed in the period.

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

	Half year 2009	Half year 2008	Full year 2008
	£m	£m	£m
Insurance operations:			
Asian (note (i))	**(41)**	(197)	(138)
US (note (ii))	**165**	(181)	(1,058)
UK (note (iii))	**(63)**	(82)	(212)
Other operations			
- IGD hedge costs (note (iv))	**(216)**	-	-
- Other (note (v))	**75**	(157)	(313)

	(141)	(157)	(313)
Total	**(80)**	(617)	(1,721)

Notes

(i) *Asian insurance operations*

The fluctuations for Asian operations in half year 2009 of a charge of £41 million primarily relate to unrealised losses on the shareholder debt portfolio in the period.

(ii) *US insurance operations*

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

	Half year 2009	Half year 2008	Full year 2008
	£m	£m	£m
Short-term fluctuations relating to debt securities:			
Charges in the period (note a)			
Defaults	**-**	-	(78)
Losses on sales of impaired and deteriorating bonds	**(44)**	(6)	(130)
Bond write downs	**(324)**	(103)	(419)
Recoveries / reversals	**2**	1	3
	(366)	(108)	(624)
Less: Risk margin charge included in operating profit based on longer-term investment returns	**41**	23	54
	(325)	(85)	(570)
Interest related realised gains (losses):			
Arising in the period	**75**	(2)	(25)
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	**(34)**	(15)	(28)
	41	(17)	(53)
Related change to amortisation of deferred acquisition costs	**37**	14	88
Total short-term fluctuation related to debt securities	**(247)**	(88)	(535)
Derivatives (other than equity related): market value movement (net of related change to amortisation of deferred acquisition costs) (note b)	**339**	(64)	(369)
Equity type investments : actual less longer-term return (net of related change to amortisation of deferred acquisition costs)	**(40)**	(32)	(69)
Other items (net of related change to amortisation of deferred acquisition costs) (note c)	**113**	3	(85)
Total	**165**	(181)	(1,058)

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

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
Residential mortgage-backed securities:			
Prime	**123**	**6**	**25**
Alt-A	**98**	**75**	**138**
Sub-prime	**18**	**–**	**4**
Total residential mortgage-backed securities	**239**	**81**	**167**
Piedmont securities	**5**	**–**	**3**
Corporates	**80**	**22**	**280**
Preferred stock and other	**–**	**–**	**47**
Losses on sales of impaired and deteriorating bonds net of recoveries	**42**	**5**	**127**
	366	**108**	**624**

Jackson experienced less than £1 million of bond default losses during the first half of 2009.

b The gain of £339 million (half year 2008: charge of £64 million; full year 2008: charge of £369 million) value movement is for freestanding
derivatives held to manage the fixed annuity and other general account business. Under IAS 39, unless hedge accounting is applied value movements on derivatives are recognised in the income statement. Except in respect of variable annuity business, the value movements on derivatives held by Jackson are separately identified within short-term fluctuations in investment returns.

Derivative value movements in respect of variable annuity business are included within the operating profit based on longer-term investment returns to broadly match with the commercial effects to which the variable annuity derivative programme relates.

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

c The £113 million gain (half year 2008: gain of £3 million; full year 2008: charge of £85 million) for other items shown above comprises a gain of £91 million for the difference between the charge for embedded derivatives included in the operating result and the charge to the total result and £22 million of other items. For embedded derivatives the operating result reflects the application of 10-year average AA corporate bond rate curves and a static historical equity volatility assumption. The total result reflects the application of period-end AA corporate bond rate curves and current equity volatility levels.

In addition, for US insurance operations, included within the statement of comprehensive income is a reduction in net unrealised losses on debt securities classified as available-for-sale of £808 million (half year 2008: increase in net unrealised losses of £677 million; full year 2008 : increase in net unrealised losses of £2,104 million). Additional details on the movement in the value of the Jackson portfolio are included in note M.

(iii) *UK insurance operations*

The half year 2009 short-term fluctuations charge for UK insurance operations of £63 million reflects asset value movements principally on the shareholder backed annuity business. The full year 2008 charge of £212 million also included a charge of £42 million for the effect of credit downgrades on the calculation of liabilities for shareholder-backed annuity business in PRIL and PAC non-profit sub-fund.

(iv) *IGD hedge costs*

During the severe equity market conditions experienced in the first quarter of 2009 the Group entered into exceptional overlay short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to the regular operational hedging programmes. The vast majority of the costs related to the hedge have been incurred in the first half of 2009, with £216 million being included in the income statement in this period. At 30 June 2009 the Group held equity options for this potential exposure with a remaining fair value of £36 million. We fully anticipate that these options will be held to their expiration, with all options expiring before the end of 2009.

(v) *Other operations*

The credit of £75 million (half year 2008: charge £157 million; full year 2008: charge £313 million) for short-term fluctuations for other operations primarily arises from unrealised value movements of £69 million in swaps held centrally to manage Group assets and liabilities (half year 2008: charge £49 million; full year 2008: charge £38 million). For 2008, a charge of £71 million was incurred in relation to the sale of an India mutual fund in May 2008.

G Sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan

On 20 February 2009, the Company announced that it had entered into an agreement to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT$1 subject to regulatory approval. In addition, the Company would invest £45 million to purchase a 9.99 per cent stake in China Life through a share placement. The business transferred represented 94 per cent of Prudential's in-force liabilities in Taiwan and included Prudential's legacy interest rate guaranteed products with IFRS basis gross assets at 31 December 2008 of £4.5 billion. After taking account of IFRS shareholders' equity of the business at 31

December 2008, provisions for restructuring costs, and other costs the Group's IFRS shareholders' equity at 31 December 2008 was expected to decrease by approximately £595 million.

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

The sale was completed, following regulatory approval, on 19 June 2009. The trading results shown below are for the period 1 January to 19 June 2009.

The carrying value of the IFRS equity of the business, as applied in the calculation of the loss on sale, reflects the application of 'grandfathered' US GAAP under IFRS 4 of insurance assets and liabilities. US GAAP does not, and is not designed to, include the cost of holding economic capital to support the legacy interest rate guaranteed products as recognised under the Company's supplementary reporting basis under European Embedded Value principles. The IFRS loss on sale reflects this missing element of the economic value. The effects on the IFRS income statement and equity attributable to shareholders is shown below.

The loss on sale and trading results of the Taiwan agency business for the period of ownership comprise:

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Loss on sale:			
As estimated and announced on 20 February 2009:			
Proceeds	**-**	-	-
Net asset value attributable to equity holders of the Company and provision for restructuring costs	**(551)**	-	-
Goodwill written off	**(44)**	-	-
	(595)	-	-
Trading losses to completion, net of tax, as shown below	**44**	-	-
Minority interests and other adjustments	**(8)**	-	-
Loss on sale of the Taiwan agency business, gross and net of tax (as shown in income statement)	**(559)**	-	-
Trading results before tax (including short-term fluctuations in investment returns)	**(62)**	(40)	1
Related tax	**18**	(6)	(4)
Total	**(44)**	(46)	(3)
Loss on sale and trading results of the Taiwan agency business:			
- Gross of tax	**(621)**	(40)	1
- Tax	**18**	(6)	(4)
- Net of tax	**(603)**	(46)	(3)

Attributable to:

Equity holders of the Company	**(598)**	(45)	(3)
Minority interests	**(5)**	(1)	-
Loss on sale and results of the Taiwan agency business, net of tax	**(603)**	(46)	(3)

The loss on disposal of £559 million includes cumulative foreign exchange gains of £9 million recycled through the profit and loss account as required by IAS 21. The impact on shareholders' funds of the disposal (including trading losses up to the date of disposal) is £607 million. The difference of £12 million from the estimate of £595 million reflects a number of minor adjustments.

Cash and cash equivalents disposed of were £388 million and restructuring and other costs incurred in cash in the period were £3 million. In addition, the Company invested £45 million in China Life as described above. Accordingly, the cash outflow for the Group arising from the sale of the Taiwan agency business, as shown in the summary consolidated statement of cash flows, was £436 million.

In order to facilitate comparisons of the Group's retained businesses, the presentation of the supplementary analysis of IFRS loss before shareholder tax (as shown in note C) has been adjusted to show separately the result for the sold Taiwan agency business, as explained below.

	Half year 2008			Full year 2008		
	As previously published	Adjustment	Adjusted	As previously published	Adjustment	Adjusted
	£m	£m	£m	£m	£m	£m
Operating profit based on longer-term investment returns	674	(27)	647	1,347	(64)	1,283
Short-term fluctuations in investment returns	(684)	67	(617)	(1,783)	62	(1,721)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	(92)	-	(92)	(14)	1	(13)
Results of sold Taiwan agency business	Included above	(40)	(40)	Included above	1	1
Loss before tax	(102)	-	(102)	(450)	-	(450)

H Tax

(i) Tax (charge) credit

The total tax charge of £103 million for half year 2009 (half year 2008: credit of £625 million; full year 2008: credit of £1,683 million) comprises a credit of £69 million (half year 2008: £670 million; full year 2008: £1,758 million) for UK tax and a charge of £172 million (half year 2008: £45 million; full year 2008: £75 million) for overseas tax. This tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £182 million for half year 2009 (half year 2008: charge of £12 million; full year 2008: credit of £59 million) comprises a charge of £53 million (half year 2008: charge of £4 million; full year 2008: credit of £95 million) for UK tax and a charge of £129 million (half year 2008: £8 million; full year 2008: £36 million) for overseas tax.

(ii) Deferred tax asset and liabilities

The deferred tax asset is made up as follows:

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Unrealised losses on investments	**875**	187	1,267
Balance relating to investment and insurance contracts	**12**	1	12
Short-term timing differences	**1,131**	1,011	1,282
Capital allowances	**36**	12	16
Unused deferred tax losses	**95**	39	309
Total	**2,149**	1,250	2,886

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The decrease at 30 June 2009 compared to 31 December 2008 is primarily due to the continuing increase in value of investments in Jackson along with the utilisation of tax losses from prior periods.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2009 half year results and financial position at 30 June 2009, the possible tax benefit of approximately £234 million (30 June 2008: £240 million; 31 December 2008: £211 million), which may arise from capital losses valued at approximately £1.1 billion (30 June 2008: £1.2 billion; 31 December 2008: £1 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £816 million (30 June 2008: £148 million; 31 December 2008: £678 million), which may arise from tax losses and other potential temporary differences totalling £2.8 billion (30 June 2008: £424 million; 31 December 2008: £2.2 billion) is sufficiently uncertain that it has not been recognised. Forecasts as to when the tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

The deferred tax liability is made up as follows:

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Unrealised gains on investments	**609**	1,486	765
Balance relating to investment and insurance contracts	**861**	467	968
Short-term timing differences	**1,173**	882	1,490
Capital allowances	**8**	8	6
Total	**2,651**	2,843	3,229

Unprovided deferred income tax liabilities on temporary differences associated with investments in subsidiaries and interests in joint ventures are considered to be insignificant due to the availability of various UK tax exemptions and reliefs.

(iii) Factors influencing the effective rate of tax attributable to shareholders' returns

The effective tax rate on the loss of the period was negative 239 per cent for the period (half year 2008: negative 12 per cent; full year 2008: positive 13 per cent) which has been adversely impacted by the fact that the Taiwan loss on disposal has no corresponding tax relief.

I Supplementary analysis of earnings per share from continuing operations

Earnings per share (in pence) **Basic and diluted**	**Half year 2009**	Half year 2008	Full year 2008
From operating profit based on longer-term investment returns after related tax and minority interests	**20.5p**	18.6p	39.9p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**(4.7)p**	(18.8)p	(55.4)p
Adjustment from post-tax shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(1.8)p**	(2.7)p	(0.4)p
Adjustment from loss on sale and result of Taiwan agency business	**(24.2)p**	(1.8)p	(0.1)p
Based on loss from continuing operations after tax and minority interests	**(10.2)p**	(4.7)p	(16.0)p

The average number of shares for the half year 2009 was 2,489 million (half year 2008: 2,465 million; full year 2008: 2,472 million). In addition there were one million potential ordinary shares that have not been included in the calculation of diluted earnings per share as their inclusion would have an anti-dilutive effect due to the losses for the periods (half year 2008: one million; full year 2008: one million).

J Dividend

Dividends per share (in pence)	**Half year 2009**	Half year 2008	Full year 2008
Dividends relating to reporting period:			
Interim dividend (2009 and 2008)	**6.29p**	5.99p	5.99p
Final dividend (2008)	**-**	-	12.91p
Total	**6.29p**	5.99p	18.90p
Dividends declared and paid in reporting period:			
Current year interim dividend	**-**	-	5.99p
Final dividend for prior year	**12.91p**	12.30p	12.30p
Total	**12.91p**	12.30p	18.29p

An interim dividend of 6.29p per share will be paid on 24 September 2009 to shareholders on the register at the close of business on 21 August 2009. The dividend will absorb an estimated £159 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

K Loans portfolio

Loans are accounted for at amortised cost unless impaired. The amounts included in the statement of financial position are analysed as follows:

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Insurance operations			
UK (note(i))	**1,689**	1,536	1,902
US (note (ii))	**4,295**	3,521	5,121
Asia (note (iii))	**1,095**	1,174	1,705
Asset management operations			
M&G (note (iv))	**1,534**	2,488	1,763
Total	**8,613**	8,719	10,491

Notes

(i) *UK insurance operations*

The loans of the Group's UK insurance operations of £1,689 million at 30 June 2009 (30 June 2008: £1,536 million; 31 December 2008: £1,902 million) comprise loans held by the PAC with-profits funds of £1,065 million (30 June 2008: £1,115 million; 31 December 2008: £1,345 million) and loans held by shareholder-backed business of £624 million (30 June 2008: £421 million; 31 December 2008: £557 million).

The loans held by the PAC with-profits fund comprise mortgage loans of £147 million, policy loans of £26 million and other loans of £892 million (30 June 2008: £154 million, £32 million and £929 million respectively; 31 December 2008: £150 million, £29 million and £1,166 million respectively). The mortgage loans are collateralised by properties. Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

The loans held by the UK shareholder-backed business comprise mortgage loans collateralised by properties of £619 million (30 June 2008: £415 million; 31 December 2008: £551 million) and other loans of £5 million (30 June 2008: £6 million; 31 December 2008: £6 million).

(ii) *US insurance operations*

The loans of the Group's US insurance operations of £4,295 million at 30 June 2009 (30 June 2008: £3,521 million; 31 December 2008 £5,121 million) comprise mortgage loans of £3,780 million and policy loans of £515 million (30 June 2008: £3,101million and £420 million respectively 31 December 2008: £4,534 million and £587 million respectively). All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown by property type is as follows:

	30 Jun 2009 %	30 Jun 2008 %	31 Dec 2008 %
Industrial	**33**	29	29
Multi-Family	**18**	23	21
Office	**21**	20	21
Retail	**17**	16	17
Hotels	**10**	10	10
Other	**1**	2	2
	100	100	100

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The US commercial mortgage loan portfolio consists of collateralised commercial mortgage loans. The average loan size is £6.5 million. The portfolio has a current estimated average loan to value of 74 per cent which provides significant cushion to withstand substantial declines in value.

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

(iii) *Asian insurance operations*

The loans of the Group's Asian insurance operations of £1,095 million at 30 June 2009 (30 June 2008: £1,174 million; 31 December 2008: £1,705 million) comprise mortgage loans of £4 million, policy loans of £402 million and other loans of £689 million (30 June 2008: £166 million, £472 million and £536 million respectively; 31 December 2008: £238 million, £675 million and £792 million respectively). The mortgage and policy loans are secured by properties and life insurance policies respectively.

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

(iv) *M&G*

The M&G loans of £1,534 million (30 June 2008: £2,488 million of which £951 million was a structured finance arrangement; 31 December 2008: £1,763 million) relate to bridging loan finance managed by Prudential Capital. The bridging loan finance assets generally have no external credit ratings available, with internal ratings prepared by the Group's asset management operations as part of the risk management process rating £1,013 million BBB+ to BBB- (30 June 2008: £630 million; 31 December 2008: £1,100 million) and £521 million BB+ to BB- (30 June 2008: £907 million; 31 December 2008: £663 million).

L Debt securities portfolio

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 30 June 2009 provided in the notes below.

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Insurance operations			
UK (note(i))	**59,231**	56,736	58,871
US (note (ii))	**20,896**	18,504	24,249
Asia (note (iii))	**8,294**	7,542	11,113
Asset management operations (note (iv))	**978**	1,024	991
Total	**89,399**	83,806	95,224

Notes

In the tables below, Standard and Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not available, those produced by Moody's and then Fitch have been used as an alternative.

(i) UK insurance operations

		PAC-with profits sub-fund			**Other funds and subsidiaries**			**UK insurance operations**	
	Scottish Amicable Insurance Fund	**Excluding Prudential Annuities Limited**	**Prudential Annuities Limited**	**Total**	**Unit-linked assets and liabilities**	**PRIL**	**Other annuity and long-term business**	**30 Jun 2009 Total**	31 Dec 2008 Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	£m
S&P - AAA	987	4,831	2,465	7,296	2,846	4,556	886	**16,571**	18,981
S&P - AA+ to AA-	331	1,917	1,141	3,058	474	1,553	257	**5,673**	6,012
S&P - A+ to A-	1,002	5,887	3,530	9,417	969	4,379	592	**16,359**	15,929
S&P - BBB+ to BBB-	807	4,433	1,181	5,614	362	1,964	394	**9,141**	7,413
S&P - Other	266	1,335	109	1,444	31	253	45	**2,039**	1,033
	3,393	18,403	8,426	26,829	4,682	12,705	2,174	**49,783**	49,368
Moody's - Aaa	62	282	48	330	-	59	16	**467**	681

Moody's - Aa1 to Aa3	13	90	58	148	8	84	22	**275**	833
Moody's - A1 to A3	18	111	172	283	4	99	16	**420**	678
Moody's - Baa1 to Baa3	47	263	259	522	18	101	24	**712**	454
Moody's - Other	19	110	46	156	-	115	12	**302**	162
	159	856	583	1,439	30	458	90	**2,176**	2,808
Fitch	54	310	277	587	-	197	33	**871**	560
Other	427	2,313	2,226	4,539	69	1,292	74	**6,401**	6,135
Total debt securities	4,033	21,882	11,512	33,394	4,781	14,652	2,371	**59,231**	58,871

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. Of the £6,401 million total debt securities held at 30 June 2009 (31 December 2008: £6,135 million) which are not externally rated, £2,190 million were internally rated AAA to A-, £3,168 million were internally rated BBB to B- and £1,043 million were unrated (31 December 2008: £2,325 million, £3,149 million and £661 million respectively). The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £1,366 million PRIL and other annuity and long-term business investments which are not externally rated, £25 million were internally rated AAA, £84 million AA, £472 million A, £582 million BBB, £162 million BB and £41 million were internally rated B- and below.

(ii) *US insurance operations*

	30 Jun 2009 £m	31 Dec 2008 £m
S&P - AAA	**4,260**	5,321
S&P - AA+ to AA-	**624**	853
S&P - A+ to A-	**4,108**	5,244
S&P - BBB+ to BBB-	**6,781**	7,077
S&P - Other	**1,480**	1,321
	17,253	19,816
Moody's - Aaa	**301**	458
Moody's - Aa1 to Aa3	**54**	100
Moody's - A1 to A3	**69**	111
Moody's - Baa1 to Baa3	**79**	100
Moody's - Other	**146**	95
	649	864
Fitch	**239**	464
Other*	**2,755**	3,105

Total debt securities	**20,896**	24,249

* The amounts within Other which are not rated by S&P, Moody or Fitch have the following National Association of Insurance Commissioners (NAIC) classifications:

	30 Jun 2009 £m	31 Dec 2008 £m
NAIC 1	**1,085**	1,334
NAIC 2	**1,583**	1,650
NAIC 3-6	**87**	121
	2,755	3,105

(iii) *Asia insurance operations*

	With-profits business £m	**Unit-linked business £m**	**Other business £m**	**30 Jun 2009 Total £m**	31 Dec 2008 Total £m
S&P - AAA	**1,424**	**153**	**146**	**1,723**	2,632
S&P - AA+ to AA-	**819**	**67**	**528**	**1,414**	3,746
S&P - A+ to A-	**750**	**464**	**156**	**1,370**	808
S&P - BBB+ to BBB-	**397**	**125**	**93**	**615**	902
S&P - Other	**338**	**181**	**71**	**590**	253
	3,728	**990**	**994**	**5,712**	8,341
Moody's - Aaa	**220**	**66**	**43**	**329**	494
Moody's - Aa1 to Aa3	**36**	**46**	**74**	**156**	108
Moody's - A1 to A3	**34**	**25**	**6**	**65**	398
Moody's - Baa1 to Baa3	**34**	**14**	**13**	**61**	60
Moody's - Other	**12**	**-**	**426**	**438**	50
	336	**151**	**562**	**1,049**	1,110
Fitch	**-**	**32**	**1**	**33**	41
Other	**262**	**809**	**429**	**1,500**	1,621
Total debt securities	**4,326**	**1,982**	**1,986**	**8,294**	11,113

Of the £429 million (31 December 2008: £555 million) of debt securities for other business which are not rated in the table above, £191 million (31 December 2008: £231 million) are in respect of government bonds and £139 million (31 December 2008: £221 million) are in respect of corporate bonds rated as investment grade by local external ratings agencies.

(iv) *Asset Management Operations*

Total debt securities for asset management operations of £978 million (31 December 2008: £991 million), include £966 million (31 December 2008: £959 million) related to M&G's Prudential Capital operations of which £923 million (31

December 2008: £959 million) were rated AAA to A- by S&P or Aaa by Moody's.

(v) Group exposure to holdings in asset-backed securities

The Group's exposure to holdings in asset-backed securities, which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), CDO funds and other asset-backed securities (ABS), at 30 June 2009 is as follows:

	30 Jun 2009 £m	31 Dec 2008 £m
Shareholder-backed operations:		
UK insurance operations (note (i))	**911**	1,075
US insurance operations (note (ii))	**5,867**	7,464
Asian insurance operations (note (iii))	**14**	15
Other operations (note (iv))	**325**	407
	7,117	8,961
With-profits operations:		
UK insurance operations (note (i))	**4,089**	4,977
Asian insurance operations (note (iii))	**261**	328
	4,350	5,305
Total	**11,467**	14,266

(i) UK insurance operations

The UK insurance operations' exposure to asset-backed securities at 30 June 2009 comprises:

	30 Jun 2009 £m	31 Dec 2008 £m
Shareholder-backed business (30 Jun 2009: 67% AAA, 20% AA)	**911**	1,075
With-profits operations (30 Jun 2009: 70% AAA, 11% AA)	**4,089**	4,977
Total	**5,000**	6,052

The UK insurance operations' exposure to asset-backed securities is mainly made up of exposure to AAA rated securities as shown in the table above.

All of the £911 million (31 December 2008: £1,075 million) exposure of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. £2,400 million of the £4,089 million (31 December 2008: £2,721 million of the £4,977 million) exposure of the with-profits operations relates to exposure to the UK market while the remaining £1,689 million (31 December 2008: £2,256 million) relates to exposure to the US market.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 30 June 2009 comprises:

	30 Jun 2009 £m	31 Dec 2008 £m
RMBS Sub-prime (30 June 2009: 86% AAA, 1% AA)	**155**	291
Alt-A (30 June 2009: 38% AAA, 8% AA)	**415**	646
Prime (30 June 2009: 88% AAA, 3% AA)	**2,844**	3,572
CMBS (30 June 2009: 89% AAA, 6% AA)	**1,725**	1,869
CDO funds (30 June 2009: 25% AAA, 14% AA)*, including £1m exposure to sub-prime	**207**	320
ABS (30 June 2009: 23% AAA, 22% AA), including £36m exposure to sub-prime	**521**	766
Total	**5,867**	7,464

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

(iii) Asian insurance operations

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

The £261 million (31 December 2008: £328 million) asset-backed securities exposure of the Asian with-profit operations comprises:

	30 Jun 2009 £m	31 Dec 2008 £m
RMBS - all without sub-prime exposure	**31**	46
CMBS	**64**	88
CDO funds and ABS	**166**	194
Total	**261**	328

The £261 million (31 December 2008: £328 million) includes £174 million (31 December 2008: £259 million) held by investment funds consolidated under IFRS in recognition of the control arrangements for those funds and include an amount not owned by the Group with a corresponding liability of £37 million (31 December 2008: £32 million) on the statement of financial position for net asset value attributable to external unit-holders in respect of these funds, which are non-recourse to the Group. Of the £261 million, 67 per cent (31 December 2008: £328 million, 70 per cent) are investment graded by Standard & Poor's.

(iv) Other operations

Other operations' exposure to asset-backed securities at 30 June 2009 is held by Prudential Capital and comprises:

	30 Jun 2009 £m	31 Dec 2008 £m
RMBS Prime (94% AAA, 6% AA)	**78**	106
CMBS (85% AAA, 8% AA)	**187**	230
CDO funds - all without sub-prime exposure (AAA)	**32**	38
ABS (93% AAA)	**28**	33
Total	**325**	407

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

(i) Valuation basis

Under IAS 39, unless categorised as 'held to maturity' debt securities are required to be fair valued. Where available, quoted market prices are used. However, where securities are in inactive markets, IAS 39 requires that valuation techniques be applied.

In 2008, due to inactive and illiquid markets, beginning at the end of the third quarter of 2008 the external prices obtained for certain asset-backed securities were deemed not to reflect fair value in the dislocated market conditions at that time. For the valuations at 31 December 2008, Jackson had therefore utilised internal valuation models, provided by PPM America, as best estimate of fair values of all non agency Residential Mortgage-backed Securities (RMBS) and Asset-backed Securities (ABS) and certain Commercial Mortgage-backed securities (CMBS). The use of internal valuation models resulted in a fair value of these securities that was higher than the value derived from pricing services and brokers by £760 million on a total amortised cost of £3.5 billion at 31 December 2008.

During 2009, improvements were observed in the level of liquidity for these sectors of structured securities. In the first quarter of 2009, the increased liquidity in the markets for certain tranches of non-agency RMBS and ABS resulted in Jackson being able to rely on external prices for these securities as the most appropriate measure of fair value. For those securities where the use of internal valuation models was still deemed to be the best estimate of fair value, the determined fair value at 31 March 2009 was £410 million higher than that derived from pricing services and brokers. This was reflected in the Group's first quarter 2009 Interim Management Statement published on 14 May 2009.
Further improvements in the liquidity levels for these sectors took place in the second quarter of 2009. This enabled the use at 30 June 2009, of external prices provided from pricing services or brokers to be applied as the most appropriate measure of fair value under IAS 39 for nearly all of the remaining structured securities for which internal valuation models had been used at 31 March 2009.

Accordingly, at 30 June 2009, nearly all of the non-agency RMBS, ABS and certain CMBS which at 31 December 2008 were valued using internal valuation models due to the dislocated market conditions in 2008, have now been valued using external prices.

(ii) Accounting presentation of gains and losses

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

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

(iii) Half year 2009 movements in unrealised gains and losses

In general, the debt securities of the Group's US insurance operations are purchased with the intention and the ability to hold them for the longer-term. In half year 2009 there was a movement in the statement of financial position value for these debt securities classified as available-for-sale from a net unrealised loss of £2,897 million to a net unrealised loss of £1,798 million. During half year 2009, Jackson's net unrealised loss position decreased as a result of improving credit spreads which more than offsets the negative effect on the bond values from the increase in the US treasury yields. The gross unrealised gain in the statement of financial position increased from £281 million at 31 December 2008 to £426 million at 30 June 2009, while the gross unrealised loss decreased from £3,178 million at 31 December 2008 to £2,224 million at 30 June 2009.

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

	30 Jun 2009	Changes in Unrealised appreciation**	Foreign exchange translation	31 Dec 2008
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	**13,677**			20,600
Unrealised loss	**(2,224)**	608	346	(3,178)
Fair value (as included in statement of financial position)	**11,453**			17,422
Assets fair valued at or above book value				
Book value*	**8,870**			6,296
Unrealised gain	**426**	200	(55)	281
Fair value (as included in statement of financial position)	**9,296**			6,577
Total				
Book value*	**22,547**			26,896
Net unrealised loss	**(1,798)**	808	291	(2,897)
Fair value (as included in statement of financial position)***	**20,749**			23,999
Reflected as part of movement in comprehensive income				
Movement in unrealised appreciation	**808**			(2,104)
Exchange movements	**291**			(657)
	1,099			(2,761)

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

**Translated at the average rate of $1.49: £1.
*** Debt securities for US operations included in the statement of financial position at 30 June 2009 of £20,896 million, and as referred to in note L, comprise £20,749 million for securities classified as available-for-sale, as shown above, and £147 million for securities of consolidated investment funds classified as fair value through profit and loss.

Included within the movement in unrealised valuation losses for the debt securities of Jackson of £608 million was an amount of £126 million relating to the sub-prime and Alt-A securities for which the carrying values at 30 June 2009 are shown in the note below.

(iv) Securities in unrealised loss position

The following tables show some key attributes of those securities that are in an unrealised loss position at 30 June 2009.

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

The unrealised losses in the Jackson statement of financial position on unimpaired securities are £2,224 million (31 December 2008: £3,178 million) relating to assets with fair market value and book value of £11,453 million (31 December 2008: £17,422 million) and £13,677 million (31 December 2008: £20,600 million) respectively. The following table shows the fair value of the securities in a gross unrealised loss position for various percentages of book value:

	30 Jun 2009		31 Dec 2008	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m
Between 90% and 100%	**6,743**	**(265)**	8,757	(431)
Between 80% and 90%	**2,487**	**(428)**	4,581	(809)
Below 80%	**2,223**	**(1,531)**	4,084	(1,938)
	11,453	**(2,224)**	17,422	(3,178)

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

	30 Jun 2009		31 Dec 2008	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m
Between 90% and 100%	**38**	**(3)**	479	(27)
Between 80% and 90%	**93**	**(18)**	120	(19)
Below 80%	**305**	**(278)**	192	(166)
	436	**(299)**	791	(212)

(b) Age analysis of unrealised losses for the periods indicated

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

	30 Jun 2009			31 Dec 2008		
	Non investment grade £m	**Investment grade £m**	**Total £m**	Non investment grade £m	Investment grade £m	Total £m
Less than 6 months	**(43)**	**(169)**	**(212)**	(108)	(362)	(470)
6 months to 1 year	**(52)**	**(117)**	**(169)**	(125)	(1,164)	(1,289)
1 year to 2 years	**(182)**	**(768)**	**(950)**	(154)	(622)	(776)
2 years to 3 years	**(187)**	**(270)**	**(457)**	(15)	(91)	(106)
More than 3 years	**(78)**	**(358)**	**(436)**	(61)	(476)	(537)
	(542)	**(1,682)**	**(2,224)**	(463)	(2,715)	(3,178)

At 30 June 2009, the gross unrealised losses in the statement of financial position for the sub-prime and Alt-A securities in an unrealised loss position were £299 million (31 December 2008: £212 million), as shown above in note (a). Of these losses £22 million (31 December 2008: £91 million) relate to securities that have been in an unrealised loss position for less than one year and £277 million (31 December 2008: £121 million) to securities that have been in an unrealised loss position for more than one year.

(c) *Unrealised losses by maturity of security*

	30 Jun 2009 £m	31 Dec 2008 £m
Less than 1 year	**(3)**	(21)
1 year to 5 years	**(135)**	(537)
5 years to 10 years	**(454)**	(1,236)
More than 10 years	**(244)**	(395)
Mortgage-backed and other debt securities	**(1,388)**	(989)
Total	**(2,224)**	(3,178)

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

As shown in the table (a) above, £1,531 million of the £2,224 million of gross unrealised losses at 30 June 2009 (31 December 2008: £1,938 million of the £3,178 million of gross unrealised losses) related to securities whose fair value were below 80 per cent of the book value. The analysis of the £1,531 million (31 December 2008: £1,938 million), by category of debt securities and by age analysis indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	30 Jun 2009		31 Dec 2008	
	Fair value £m	**Unrealised loss £m**	Fair value £m	Unrealised loss £m

Residential mortgage-backed securities				
Prime	**404**	**(364)**	287	(115)
Alt - A	**187**	**(154)**	144	(127)
Sub-prime	**118**	**(124)**	48	(39)
	709	**(642)**	479	(281)
Commercial mortgage-backed securities.	**478**	**(263)**	811	(375)
Other asset-backed securities	**256**	**(302)**	198	(86)
Total structured securities	**1,443**	**(1,207)**	1,488	(742)
Corporates	**780**	**(324)**	2,596	(1,196)
Total	**2,223**	**(1,531)**	4,084	(1,938)

Age analysis of fair value being below 80 per cent for the periods indicated	**30 Jun 2009** Fair value	Unrealised loss	31 Dec 2008 Fair value	Unrealised loss
	£m	**£m**	£m	£m
Less than 3 months	**767**	**(561)**	3,118	(1,364)
3 months to 6 months	**393**	**(272)**	696	(403)
More than 6 months	**1,063**	**(698)**	270	(171)
	2,223	**(1,531)**	4,084	(1,938)

N Net core structural borrowings of shareholder-financed operations

	30 Jun 2009	30 Jun 2008	31 Dec 2008
	£m	£m	£m
Core structural borrowings of shareholder-financed operations:			
Perpetual subordinated capital securities (Innovative Tier 1*)	**950**	765	1,059
Subordinated notes (Lower Tier 2*)	**1,248**	838	928
Subordinated debt total	**2,198**	1,603	1,987
Senior debt ***:			
2009	**–**	249	249
2023	**300**	300	300
2029	**249**	249	249
Holding company total	**2,747**	2,401	2,785

Jackson surplus notes (Lower Tier 2*)	**152**	125	173
Total (per summary consolidated statement of financial position)	**2,899**	2,526	2,958
Less: Holding company** cash and short-term investments			
(recorded within the summary consolidated statement of financial position)	**(1,252)**	(1,498)	(1,165)
Net core structural borrowings of shareholder-financed operations	**1,647**	1,028	1,793

* These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook.
** Including central finance subsidiaries.
*** The senior debt ranks above subordinated debt in the event of liquidation.

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

In July 2009, the Company issued US$750 million perpetual subordinated capital securities. For further information on the issue, see note T: Post-balance sheet events.

O Other borrowings

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Operational borrowings attributable to shareholder-financed operations			
Borrowings in respect of short-term fixed income securities programmes	**2,392**	2,321	1,278
Non-recourse borrowings of US operations	**297**	580	511
Other borrowings	**166**	7	188
Total	**2,855**	2,908	1,977
Borrowings attributable to with-profits operations			
Non-recourse borrowings of consolidated investment funds	**1,104**	740	1,161
£100m 8.5%undated subordinated guaranteed bonds of the Scottish Amicable Insurance Fund	**100**	100	100
Other borrowings (predominantly obligations under finance leases)	**145**	97	47
Total	**1,349**	937	1,308

P Deferred acquisition costs and other intangible assets attributable to shareholders

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

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

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

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. 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, which for half years 2009 and 2008 and full year 2008 was 8.4 per cent per annum (gross of fund management fees) determined using a mean reversion methodology. Under the mean reversion methodology, projected returns over the next five years are flexed (subject to capping) so that, combined with the actual rates of return for the current and the previous two years the 8.4 per cent rate is maintained. The projected rates of return are capped at no more than 15 per cent for each of the next five years.

These returns affect the level of future expected profits through their effects on the fee income with consequential impact on the amortisation of deferred acquisition costs and the required level of provision for guaranteed minimum death benefit claims.

For traditional life insurance contracts, provisions for future policy benefits are determined under SFAS 60 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.

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

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Deferred acquisition costs relating to insurance and investment management contracts	**3,923**	3,218	5,205
Present value of acquired in-force business and distribution rights	**122**	72	144
	4,045	3,290	5,349
Arising in:			

UK insurance operations	**132**	149	134
US insurance operations	**3,259**	2,297	3,962
Asia insurance operations	**648**	839	1,247
Asset management operations	**6**	5	6
	4,045	3,290	5,349

The movement in the period comprises:

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Balance at the beginning of the period	**5,349**	2,836	2,836
Additions	**468**	424	959
Amortisation to income statement	**(447)**	(226)	(551)
Exchange differences	**(654)**	(4)	1,274
Change in shadow DAC	**(235)**	260	831
DAC movement on sale of Taiwan agency business	**(436)**	-	-
Balance at the end of the period	**4,045**	3,290	5,349

Q Defined benefit pension schemes

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Economic position:			
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:			
Attributable to the PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	**(123)**	(129)	(67)
Attributable to shareholder-backed operations (i.e. shareholders' equity)	**(120)**	(165)	(82)
Economic deficit	**(243)**	(294)	(149)
Exclude: investments in Prudential insurance liabilities (offset on consolidation in the Group financial statements against insurance liabilities)	**(161)**	(165)	(157)
Deficit under IAS 19 included in Provisions in the statement of financial position	**(404)**	(459)	(306)

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

The economic financial position of the defined benefit pension schemes as shown in the table above reflects the total assets of the schemes including investments in Prudential policies. This is to be contrasted with the IAS 19 basis which excludes investments in Prudential insurance policies which on the financial statement presentation are offset against the policyholder liabilities.

The economic deficit shown in the table above includes the effects of the Group's application of IFRIC 14, 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' under which the Group has not recognised the underlying PSPS surplus of £492 million gross of deferred tax (30 June 2008: £315 million; 31 December 2008: £728 million).

Additionally, under IFRIC 14, the Group is required to recognise a liability for committed deficit funding obligation in schemes for which it has no unconditional right of refund to any surplus. Although the contributions would increase the surplus in the scheme, the corresponding asset will not be recognised in the Group accounts in compliance with IAS19. At 30 June 2008 and 31 December 2008, the Group has recognised a liability for deficit funding for PSPS to 5 April 2010 of £80 million and £65 million gross of tax, respectively. At 30 June 2009, based on the new funding arrangements following the completion of the triennial actuarial valuation of PSPS as described further below, the Group has recognised a liability for deficit funding of £68 million gross of tax. Deficit funding for PSPS is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations.

Defined benefit schemes in the UK are generally required to be subject to a full actuarial valuation every three years, in order to assess the appropriate level of funding for schemes in relation to their commitments. The valuations of PSPS as at 5 April 2008 and SAPS as at 31 March 2008 were recently finalised. The valuation of PSPS demonstrated the scheme to be 106 per cent funded by reference to the Scheme Solvency Target that form the basis of the scheme's statutory funding objective. Accordingly the total contributions to be made by the Group into the scheme were reduced from the previous arrangement of £70 to £75 million per annum to £50 million per annum effective from July 2009. As the scheme was in a surplus position at the valuation date, no formal recovery plan was required. However, recognising that there had been significant deterioration in the value of the scheme assets since 5 April 2008, contributions to the scheme for additional funding of £25 million per annum, in addition to a £25 million per annum employers' contributions for ongoing service of current employees, was agreed with the Trustees effective from 1 July 2009 subject to a reassessment when the next valuation is completed.

The valuation of SAPS as at 31 March 2008 demonstrated the scheme to be 91 per cent funded, with a shortfall of actuarially determined assets to liabilities of 9 per cent, representing a deficit of £38 million. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a 7 year period were made from July 2009 of £7.3 million per annum.

R Contingencies and related obligations

The main change to the Group's contingencies and related obligations that have arisen in the six month period ended 30 June 2009 is set out below.

Jackson owns debt instruments issued by securitisation trusts managed by PPM America. As disclosed in the 2008 Annual Report, as at 31 December 2008, the support provided by certain forbearance agreements Jackson entered into with the counterparty to certain of these trusts could potentially expose Jackson to maximum losses of £221 million. In half year 2009, Jackson entered into further forbearance agreements. At 30 June 2009, the support provided by these agreements could potentially expose Jackson to maximum losses of £431 million, if circumstances allowed the forbearance period to cease. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreements is remote.

S Related party disclosures

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2008.

There were no transactions with related parties during the six months ended 30 June 2009 which have had a material effect on the results or financial position of the Group.

T Post-balance sheet events

In July 2009, the Company issued US$750 million 11.75% Perpetual Subordinated Capital Securities, primarily to Asian retail investors. The proceeds, net of costs, were US$733 million. All of this debt counts as capital for IGD purposes and therefore has strengthened the Group's IGD capital position by £0.5 billion.

U Group supplementary information

The Company has published documents alongside the Company's half-year results announcement for the period ended 30 June 2009, entitled 'supplementary information'. These documents include additional detailed analysis and explanation of the Group's results contained in this announcement. The documents have been posted to the Company's website address at www.prudential.co.uk

TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

INSURANCE PRODUCTS AND INVESTMENT PRODUCTS

	Insurance products			Investment products			Total		
	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m
Asian operations	**882**	1,486	2,422	**32,084**	22,843	46,957	**32,966**	24,329	49,379
US operations	**3,810**	3,464	6,941	**6**	27	36	**3,816**	3,491	6,977
UK operations	**2,582**	3,250	7,183	**12,631**	7,491	16,154	**15,213**	10,741	23,337
Group Total	**7,274**	8,200	16,546	**44,721**	30,361	63,147	**51,995**	38,561	79,693

INSURANCE PRODUCTS - NEW BUSINESS PREMIUMS AND CONTRIBUTIONS (note (i))

Annual Premium and Contribution	Present Value of New

	Single			Regular			Equivalents (APE)			Business Premiums (PVNBP)		
	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m
Asian operations												
China	**43**	35	63	**17**	15	32	**21**	19	38	**125**	111	230
Hong Kong	**31**	346	507	**92**	78	154	**95**	113	205	**582**	834	1,612
India (Group's 26% interest)	**32**	40	60	**73**	122	202	**76**	126	208	**272**	450	747
Indonesia	**13**	68	94	**82**	81	167	**83**	88	176	**282**	336	649
Japan	**38**	68	115	**25**	21	30	**29**	28	42	**155**	163	217
Korea	**20**	50	78	**64**	118	211	**66**	123	219	**314**	594	1,097
Malaysia	**33**	14	28	**49**	38	99	**52**	39	102	**295**	225	570
Singapore	**115**	276	341	**40**	37	78	**52**	65	112	**409**	547	961
Taiwan (note (iv))	**32**	24	36	**48**	16	55	**51**	18	58	**178**	78	237
Other	**8**	10	18	**27**	29	54	**28**	30	56	**94**	97	188
Total Asian operations	**365**	931	1,340	**517**	555	1,082	**553**	648	1,216	**2,706**	3,435	6,508
US operations												
Fixed annuities	**701**	635	1,724	**-**	-	-	**69**	63	172	**701**	635	1,724
Fixed index annuities	**575**	196	501	**-**	-	-	**58**	20	50	**575**	196	501
Variable annuities	**2,517**	1,797	3,491	**-**	-	-	**252**	180	349	**2,517**	1,797	3,491
Life	**5**	4	7	**12**	11	24	**13**	11	25	**96**	88	230
Guaranteed Investment Contracts	**-**	505	857	**-**	-	-	**-**	50	86	**-**	505	857
GIC-Medium Term Notes	**-**	316	337	**-**	-	-	**-**	32	34	**-**	316	337
Total US operations	**3,798**	3,453	6,917	**12**	11	24	**392**	356	716	**3,889**	3,537	7,140
UK operations												
Product summary												
Internal vesting annuities	**726**	721	1,600	**-**	-	-	**73**	72	160	**726**	721	1,600
Direct and partnership annuities	**273**	373	703	**-**	-	-	**27**	37	70	**273**	373	703
Intermediated annuities	**140**	285	497	**-**	-	-	**14**	29	50	**140**	285	497
Total individual annuities	**1,139**	1,379	2,800	**-**		-	**114**	138	280	**1,139**	1,379	2,800
Income drawdown	**46**	30	75	**-**	-	-	**4**	3	8	**46**	30	75
Equity release	**54**	117	242	**-**	-	-	**5**	12	24	**54**	117	242
Individual pensions	**98**	32	115	**3**	1	3	**13**	4	14	**107**	35	124
Corporate pensions	**47**	94	221	**44**	38	88	**49**	47	110	**286**	280	645
Unit-linked bonds	**49**	67	109	**-**	-	-	**5**	7	11	**49**	67	109
With-profits bonds	**684**	418	869	**-**	-	-	**68**	42	87	**684**	418	869
Protection	**-**	-	-	**7**	3	6	**7**	3	6	**45**	16	38
Offshore products	**127**	321	551	**2**	2	4	**15**	34	59	**137**	331	573
PruHealth (note (iii))	**-**	-	-	**6**	8	16	**6**	8	16	**56**	79	146

Total retail retirement	**2,244**	2,458	4,982	**62**	52	117	**286**	298	615	**2,603**	2,752	5,621

	Single			Regular			Annual Premium and Contribution Equivalents (APE)			Present Value of New Business Premiums (PVNBP)		
	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m	**Half year 2009 £m**	Half year 2008 £m	Full year 2008 £m
Corporate pensions	**68**	173	227	**59**	62	116	**66**	79	139	**285**	376	653
Other products	**39**	77	132	**10**	11	21	**14**	19	34	**74**	119	219
DWP rebates	**80**	103	153	**-**	-	-	**8**	10	15	**80**	103	153
Total mature life and pensions	**187**	353	512	**69**	73	137	**88**	108	188	**439**	598	1,025
Total retail	**2,431**	2,811	5,494	**131**	125	254	**374**	406	803	**3,042**	3,350	6,646
Wholesale annuities	**8**	307	1,417	**-**	-	-	**1**	31	142	**8**	307	1,417
Credit life	**12**	7	18	**-**	-	-	**1**	1	2	**12**	7	18
Total UK operations	**2,451**	3,125	6,929	**131**	125	254	**376**	438	947	**3,062**	3,664	8,081
Channel summary												
Direct and partnership	**949**	1,147	2,352	**108**	106	215	**203**	221	450	**1,422**	1,579	3,268
Intermediated	**1,402**	1,562	2,990	**23**	19	39	**163**	175	338	**1,540**	1,669	3,226
Wholesale	**20**	313	1,434	**-**	-	-	**2**	31	144	**20**	313	1,434
Sub-total	**2,371**	3,022	6,776	**131**	125	254	**368**	427	932	**2,982**	3,561	7,928
DWP rebates	**80**	103	153	**-**	-	-	**8**	10	15	**80**	103	153
Total UK operations	**2,451**	3,125	6,929	**131**	125	254	**376**	438	947	**3,062**	3,664	8,081
Group Total	**6,614**	7,509	15,186	**660**	691	1,360	**1,321**	1,442	2,879	**9,657**	10,636	21,729

INVESTMENT PRODUCTS - FUNDS UNDER MANAGEMENT (note (ii))

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

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to

be, reflective of premium income recorded in the IFRS income statement.
Annual premium and contribution equivalents are calculated as the aggregate of regular new business amounts and one tenth of single new business amounts. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution. New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS reporting. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.
The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as "insurance" refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under FSA regulations.
The details shown above for insurance products include contributions for contracts that are classified under IFRS 4 "Insurance Contracts" as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

(ii) Investment products referred to in the table for funds under management above are unit trust, mutual funds and similar types of retail asset management arrangements. These are unrelated to insurance products that are classified as 'investment contracts' under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

(iii) The tables above for all periods reflect the inclusion of the Group's UK health insurance joint venture operation, PruHealth.

(iv) The tables above include new business for the Taiwan bank distribution operation. New business of the Taiwan Agency business, which was sold in June 2009 (as explained in note G) are excluded from the tables. Comparative figures have been adjusted accordingly.

(v) The 2008 comparatives shown in the tables above are at actual exchange rates (AER).

Statement of Directors' Responsibilities

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

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

- the condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union;
- the Half-Yearly Financial Report includes a fair review of information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six
  months ended 30 June 2009, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2009 and that have materially affected the financial position or the performance of the Group during the period and changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2008.

The current directors of Prudential plc are as listed in the Group's 2008 Annual Report.

On behalf of the Board of directors

Tidjane Thiam
Chief Financial Officer
12 August 2009

Combined IFRS basis results and EEV basis results report

Independent review report by KPMG Audit Plc to Prudential plc

Introduction
We have been engaged by the Company to review the International Financial Reporting Standards (IFRS) basis financial information in the Half-Yearly Financial Report for the six months ended 30 June 2009 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

We have also been engaged by the Company to review the European Embedded Value (EEV) basis supplementary information for the six months ended 30 June 2009 which comprises the Operating Profit Based on Longer-Term Investment Returns, the Summary Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes.

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

This report is made solely to the company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the United Kingdom's Financial Services Authority ("the UK FSA") and also to provide a review conclusion to the Company on the EEV basis supplementary financial information. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. Our review of the supplementary information has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Half-Yearly Financial Report, including the IFRS basis financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-Yearly Financial Report in accordance with the DTR of the UK FSA. The directors have accepted responsibility for preparing the EEV basis supplementary financial information contained in the Half-Yearly Financial Report in accordance with the EEV Principles issued in May 2004 by the European CFO Forum and for determining the methodology and assumptions used in the application of those principles.

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

The EEV basis supplementary financial information has been prepared in accordance with the EEV principles using the methodology and assumptions set out in notes 2 and 3 to the EEV basis supplementary financial information. The supplementary information should be read in conjunction with the IFRS basis financial information.

Our responsibility

Our responsibility is to express to the Company a conclusion on the IFRS basis financial information and the EEV basis supplementary financial information in the Half-Yearly Financial Report based on our review.

Scope of review

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the IFRS basis financial information in the Half Yearly Financial Report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 2 and 3 to the EEV basis supplementary financial information.

G Bainbridge
for and on behalf of KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB
12 August 2009