PRUDENTIAL PLC
Form 6-K
September 30, 2009

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As filed with the Securities and Exchange Commission on September 30, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Name of Registrant)

**Laurence Pountney Hill,
London EC4R 0HH, England**

(Address of Principal Executive Offices)

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

Form 20-F X Form 40-F

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

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

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

Yes ____ No X

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

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

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SELECTED HISTORICAL FINANCIAL INFORMATION OF PRUDENTIAL

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

	Six Months Ended June 30,		
	2009(1)	**2009**	**2008**
	(In $ Millions)	**(In £ Millions)**	
Income statement data			
Earned premiums, net of reinsurance	**15,659**	**9,518**	8,926
Investment return	**5,964**	**3,625**	(9,752)
Other income	**944**	**574**	453
Total revenue, net of reinsurance	**22,567**	**13,717**	(373)
Benefits and claims and movement in unallocated surplus of with-profits funds	**(17,740)**	**(10,783)**	1,479
Acquisition costs and other operating expenditure	**(4,024)**	**(2,446)**	(1,763)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(138)**	**(84)**	(82)
Loss on sale of Taiwan Agency business	**(920)**	**(559)**	
Total charges, net of reinsurance	**(22,822)**	**(13,872)**	(366)
Loss before tax (*being tax attributable to shareholders' and policyholders' returns*)[2]	**(255)**	**(155)**	(739)
Tax attributable to policyholders' returns	**130**	**79**	637
Loss before tax attributable to shareholders	**(125)**	**(76)**	(102)
Tax attributable to shareholders' profits	**(299)**	**(182)**	(12)
Loss for the period	**(424)**	**(258)**	(114)

	Six Months Ended June 30,		
	2009(1)	**2009**	**2008**
Other data			
Based on loss for the period attributable to the equity holders of the Company:			
Basic loss per share	**(16.8)¢**	**(10.2)p**	(4.7)p
Diluted loss per share	**(16.8)¢**	**(10.2)p**	(4.7)p
Dividend per share declared and paid in reporting period[5]	**21.24¢**	**12.91p**	12.30p
Equivalent cents per share[6]		**20.52¢**	24.21¢
Market price at end of period	**681¢**	**414p**	533p

Weighted average number of shares (in millions)	**2,489**	2,465

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	As of and for the Six Months Ended June 30, 2009(1) (In $ Millions)	2009 (In £ Millions)	As of and for the Twelve Months Ended December 31, 2008
Balance sheet data			
Total assets	**328,030**	**199,386**	215,542
Total policyholder liabilities and unallocated surplus of with-profits funds	**283,152**	**172,108**	182,391
Core structural borrowings of shareholder-financed operations	**4,769**	**2,899**	2,958
Total equity	**7,813**	**4,749**	5,113
Other data			
New business:			
Single premium sales[7]	**10,881**	**6,614**	15,186
New regular premium sales[3][4][7]	**1,086**	**660**	1,360
Gross investment product contributions[4]	**73,575**	**44,721**	63,147
Funds under management	**402,469**	**244,632**	249,351

(1) Amounts stated in US dollars have been translated from pounds sterling at the rate of $1.6452 per £1.00 (the noon buying rate in New York City on June 30, 2009).

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

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

(4) The new business premiums in the table shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. Department of Work and Pensions ("DWP") rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

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

Investment products included in gross investment product contributions in the table above are unit trusts, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as "investment contracts" under IFRS 4, as described in the preceding paragraph, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

(5)

Under IFRS, dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes the final dividend in respect of the prior period. Parent company dividends relating to the reporting period were an interim dividend of 6.29p per share for the first half of 2009 and 5.99p per share for the first half of 2008.

(6)

The dividends declared relating to the reporting period have been translated into US dollars at the noon buying rate on the dates the payments were made.

(7)

The new business in the table shown above is for the Group's retained businesses as at June 30, 2009. It excludes new business for the Taiwan agency business, which was sold in June 2009, and includes amounts for the retained Taiwan bank distribution business.

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EXCHANGE RATE INFORMATION

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

Period	Average
Six months ended June 30, 2008	1.99
Twelve months ended December 31, 2008	1.84
Six months ended June 30, 2009	1.49

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

Month	High	Low
March 2009	1.47	1.38
April 2009	1.50	1.44
May 2009	1.62	1.49
June 2009	1.65	1.60
July 2009	1.67	1.60
August 2009	1.70	1.62

On September 25, 2009, the latest practicable date prior to this filing, the noon buying rate was £1.00 = $1.60.

FORWARD-LOOKING STATEMENTS

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

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EEV BASIS AND NEW BUSINESS RESULTS

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

The EEV basis is a value based method of reporting in that it reflects the change in the value of in-force long-term business over the accounting period. This value is called the shareholders' funds on the EEV basis which, at a given point in time, is the value of future cash flows expected to arise from the current book of long-term insurance business plus the net worth (based on statutory solvency capital (or economic capital where higher) and unencumbered capital) of the company. EEV basis results are published semi-annually by the Group in the UK. The EEV basis results also include disclosures regarding the movements in free surplus (the excess of available over required capital) for the year as a result of, among other things, the generation of free surplus from the in-force operations, the investment of free surplus in new business and investment market-related movements.

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

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with Prudential's unaudited condensed consolidated interim financial statements and the related notes to Prudential's unaudited condensed consolidated interim financial statements for the period ended June 30, 2009 included in this document. Prudential's unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS. A summary of the critical accounting policies which have been applied to these statements is set forth in the section below entitled " IFRS Critical Accounting Policies".

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

Introduction

In the first half of 2009, Prudential continued to provide a broad range of financial products and services, primarily to the retail market. Prudential's principal operations continue to be in Asia, the United States and the United Kingdom. The accounting policies applied by Prudential in determining the IFRS basis results reflected in Prudential's unaudited condensed consolidated interim financial statements for the period ended June 30, 2009 are the same as those previously adopted in Prudential's consolidated financial statements for the year ended December 31, 2008, except for the adoption of IFRS 8, 'Operating Segments' and the adoption of the revised version of IAS 1 'Presentation of Financial Statements: A Revised Presentation'. There was no impact on the results or financial position of Prudential from these changes. Further details of the impact on Prudential's consolidated interim financial statements are shown in Note B to the unaudited condensed consolidated interim financial statements.

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's unaudited condensed consolidated interim financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively "IFRS"). Were the Group to apply International Financial Reporting Standards as adopted by the European Union as opposed to those issued by the International Accounting Standards Board, no additional adjustments would be required.

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

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

The critical accounting policies in respect of the items discussed below are critical for the Group's results insofar as they relate to the Group's shareholder-backed business. In particular, this applies for Jackson National Life Insurance Company (Jackson), which is the largest shareholder-backed business in

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the Group. The policies are not critical in respect of the Group's with-profits business. Accordingly, explanation is provided in this section as to why the distinction between the with-profits business and shareholder-backed business is relevant.

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

The policies and key assumptions described below are relevant to the reporting periods covered by this filing. Quantitative analysis for the year ended December 31, 2008 was provided in Prudential's annual report for 2008 filed with the Securities and Exchange Commission ("SEC") on Form 20-F. Quantitative analysis for the six months to June 30, 2009 is generally not provided in this section apart from information relating to Jackson's available-for-sale debt securities portfolio and unrecognized deferred tax assets. Other quantitative analysis as applied for the 2009 full year results, will be provided in Prudential's annual report for 2009 to be filed with the SEC on Form 20-F.

Investments

Determining the fair value of financial investments that are not quoted on active markets

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

If the market for a financial investment of the Group is not active, the fair value is determined in full or in part by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services or by using internally developed pricing models. Priority is given to publicly available prices from independent sources, when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The valuation techniques include the use of recent arm's length transactions, reference to instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

The majority of financial investments valued using valuation techniques were debt securities. The debt securities include private debt securities such as private placements, project finance, asset securitizations and local authority securities. The securities are mainly long-dated and not regularly traded and are valued internally using market standard practices. The majority of the debt securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced by taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The majority of the parameters used in this valuation technique, are readily observable in the market and, therefore, are not subject to interpretation.

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

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dislocated market conditions at that time. For the valuations at December 31, 2008 Jackson had therefore utilized internal valuation models, provided by PPM America, as the best estimate of fair values for all non-agency residential mortgage-backed securities (RMBS) and asset-backed securities (ABS) and certain commercial mortgage-backed securities (CMBS).

During 2009 improvements were observed in the level of the liquidity for these sectors of structured securities and at June 30, 2009, Jackson relied on external prices provided by pricing services or brokers as the most appropriate measure of fair value of nearly all these structured securities. Accordingly, nearly all of the non-agency RMBS, ABS and certain CMBS which at December 31, 2008 were valued using internal valuations models due to dislocated market conditions at that time were at June 30, 2009 valued using external prices. The impact of the move to external pricing during the period is disclosed in Note M to the unaudited condensed consolidated interim financial statements.

Determining impairments relating to financial assets

Available-for-sale securities

Financial investments carried on an available-for-sale basis are represented by Jackson's debt securities portfolio. The consideration of evidence of impairment requires management's judgment. In making this determination the factors considered include, for example, whether the decline is substantial, the ability and intent to retain the investment long enough to allow for an estimated full recovery in value, the duration and extent to which the amortized cost exceeds fair value, the financial condition and prospects of the issuer, or any other objectively observable conditions that indicate that the investment may be impaired.

For Jackson's residential mortgage-backed securities, the model used to analyze cash flows begins with the current delinquency experience of the underlying collateral pool for the structure by applying assumptions about how much of the currently delinquent loans will eventually default, and multiplying this by an assumed loss severity. Additional factors are applied to anticipate the effect of ageing. After applying a cash flow simulation an indication is obtained as to whether or not the security has suffered a principal payment shortfall. If a shortfall applies an impairment charge is generally recorded.

Unrealized losses that are considered to be primarily the result of market conditions, such as increasing interest rate movements, unusual market volatility, or industry-related events, and where Prudential also believes there is a reasonable expectation for recovery and, furthermore, it has the intent and ability to hold the investment until maturity or the market recovers, are usually determined to be temporary. Prudential's review of fair value involves several criteria including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/offer spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealized losses currently in equity may be recognized in the income statement in future periods.

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

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

	June 30, 2009	Changes in unrealized appreciation*	Foreign exchange translation	December 31, 2008
		(In £ Millions)		
Assets fair valued at below book value				
Book value	**13,677**			20,600
Unrealized loss	**(2,224)**	608	346	(3,178)
Fair value (as included in statement of financial position)	**11,453**			17,422
Assets fair value at or above book value				
Book value	**8,870**			6,296
Unrealized 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 unrealized loss	**(1,798)**	808	291	(2,897)
Fair value (as included in statement of financial position)**	**20,749**			23,999

*

Translated at the average rate of $1.49: £1 over the first half of 2009.

**

Debt securities for US operations included in the statement of financial position at June 30, 2009 of £20,896 million, 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.

The following tables provide further detail regarding the key attributes of Jackson's available-for-sale securities that are in an unrealized loss position at June 30, 2009.

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

The unrealized losses in Jackson's statement of financial position on unimpaired securities at June 30, 2009 were £2,224 million (December 31, 2008: £3,178 million), which related to assets with fair market values and book values of £11,453 million (December 31, 2008: £17,422 million) and £13,677 million (December 31, 2008: £20,600 million), respectively. The following table shows the fair value of the securities in a gross unrealized loss position as a percentage of book value:

	June 30, 2009 Fair value	June 30, 2009 Unrealized loss	December 31, 2008 Fair value	December 31, 2008 Unrealized loss
		(In £ Millions)		
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)

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Included within the table above, showing the fair value of securities in an unrealized loss position at June 30, 2009 as a percentage of book value, are the following amounts relating to sub-prime and Alt-A securities:

	June 30, 2009 Fair value	June 30, 2009 Unrealized loss	December 31, 2008 Fair value	December 31, 2008 Unrealized loss
	(In £ Millions)			
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)

As shown in the table above, £1,531 million of the £2,224 million of gross unrealized losses on Jackson's available-for-sale securities at June 30, 2009 (December 31, 2008: £1,938 million of the £3,178 million of gross unrealized losses) related to securities whose fair value was below 80 per cent of the book value. The analysis of the £1,531 million (December 31, 2008: £1,938 million), by category of debt securities and by age based on the length of time for which the relevant securities fair value was below 80 per cent of the book value, is as follows:

	June 30, 2009 Fair value	June 30, 2009 Unrealized loss	December 31, 2008 Fair value	December 31, 2008 Unrealized loss
	(In £ Millions)			
Analysis by category of debt security:				
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)

	June 30, 2009 Fair value	June 30, 2009 Unrealized loss	December 31, 2008 Fair value	December 31, 2008 Unrealized loss
	(In £ Millions)			
Age analysis: period for which fair value below 80 per cent				
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)

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(b) Age analysis of period of unrealized loss position

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

	June 30, 2009			December 31, 2008		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
	(In £ Millions)					
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 June 30, 2009, the gross unrealized losses in the statement of financial position for Jackson's available-for-sale sub-prime and Alt-A securities in an unrealized loss position were £299 million (December 31, 2008: £212 million), as shown above in note (a). Of these losses, £22 million (December 31, 2008: £91 million) related to securities that had been in an unrealized loss position for less than one year and £277 million (December 31, 2008: £121 million) to securities that had been in an unrealized loss position for more than one year.

Assets held at amortized cost

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

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

Changes in the estimates of credit risk in any reporting period could result in a change in the allowance for losses on the loans and advances.

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Insurance contracts

Product classification

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

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

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

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

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

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

Valuation assumptions

(i) Contracts of with-profits funds

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

The basis of determining liabilities for the Group's with-profits business has little or no effect on the results attributable to shareholders. This is because movements on liabilities of the with-profits funds are absorbed by the unallocated surplus. The unallocated surplus represents the excess of assets over liabilities that have yet to be appropriated between policyholders and shareholders. Except through indirect effects, or in remote circumstances as described below, changes to liability assumptions are therefore reflected in the carrying value of the unallocated surplus rather than shareholders' equity.

Key elements of the value placed on the liabilities are that:

(a) The component for the with-profits benefit reserve is based on retrospective calculation of documented asset shares. Asset shares are calculated as the accumulation of all items of income and outgo that are relevant to each policy type; and

(b) The component for future policyholder related liabilities includes a market consistent valuation of costs and guarantees, options and smoothing determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities.

The Group's other with-profits contracts are written in with-profits funds that operate in some of the Group's Asian operations. The liabilities for these contracts and those of Prudential Annuities Limited, which is a subsidiary company of the Prudential Assurance Company ("PAC") with-profits funds,

are determined differently. For these contracts the liabilities are estimated using actuarial methods based on assumptions relating to premiums, interest rates, investment returns, expenses, mortality and surrenders. The assumptions to which the estimation of these reserves is particularly sensitive are the interest rate used to discount the provision and the assumed future mortality experience of policyholders.

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

This lack of sensitivity reflects the with-profits fund structure, basis of distribution, and the application of previous GAAP to the unallocated surplus of with-profits funds as permitted by IFRS 4. Changes in liabilities of these contracts that are caused by altered estimates are absorbed by the unallocated surplus of the with-profits funds. As noted previously, the unallocated surplus is accounted for as a liability and thus, except in the remote circumstances where support for the funds by shareholders' funds would be required, changes in its level do not directly affect shareholders' equity.

(ii) Other contracts

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

UK insurance operations

The types of products written by UK shareholder-backed insurance operations are for annuity, non-profit unit-linked and other non-participating business.

The most significant business for which changes in assumptions may affect results is the shareholder-backed annuity business. As the assets and liabilities of this type of business are closely matched by duration, liabilities are determined using a valuation rate of interest that is sensitive to current market conditions. Accordingly, the profits are not particularly sensitive to interest rate movements. Profits from shareholder-backed annuity business are most sensitive to:

- the extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts. Assuming close matching, the impact of short-term asset value movements as a result of interest rate movements will broadly offset changes in the value of liabilities caused by movements in valuation rates of interest;
- actual versus expected default rates on assets held;
- the difference between long-term rates of return on corporate bonds and risk-free rates;
- the variance between actual and expected mortality experience;
- the extent to which expected future mortality experience gives rise to changes in the measurement of liabilities; and
- changes in renewal expense levels.

Jackson

Jackson offers individual fixed annuities, fixed index annuities, immediate annuities, variable annuities, individual and variable life insurance and institutional products. With the exception of institutional products and an incidental amount of business for annuity certain contracts, which are accounted for as investment contracts under IAS 39, all of Jackson life assurance contracts are accounted for under IFRS 4 as insurance contracts by applying US GAAP, the previous GAAP used before IFRS adoption. Under US GAAP the requirements of SFAS 60 "Accounting and Reporting for Insurance Enterprises" and SFAS 97 "Accounting and Reporting by Insurance Enterprises for certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" apply to these contracts. The accounting requirements under these standards and the effect of changes in valuation assumptions are considered below for fixed annuity, variable annuity and traditional life insurance contracts.

Fixed annuity contracts, which are treated as investment contracts under US GAAP terminology, are accounted for by applying in the first instance a retrospective deposit method to determine the liability for policyholder benefits. This is then augmented by potentially three additional amounts, namely deferred income, any amounts previously assessed against policyholders that are refundable on termination of the contract, and any premium deficiency, i.e., any probable future loss on the contract. These types of contracts contain considerable interest rate guarantee features. Notwithstanding the accompanying market risk exposure, except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of Jackson's fixed annuity products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement.

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal 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 the variable annuity business, the key assumption is the expected long-term level of equity market returns which is determined using a mean reversion methodology, and for all relevant reporting periods was set at 8.4 per cent per annum. 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 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 amortization of deferred acquisition costs as described below 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.

Asian operations

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

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The principal non-participating business in the Group's Asian operations, for which changes in estimates and assumptions were important from year to year, was the traditional whole-life business written in Taiwan. On February 20, 2009, the Group 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. The business sold represents 94 per cent of Prudential's in-force liabilities in Taiwan and includes Prudential's legacy interest rate guaranteed products. The sale was completed, following regulatory approval, on June 19, 2009. Consequently, the sale of the traditional whole-life business written in Taiwan has significantly reduced the Group's sensitivity to changes in estimates and assumptions that prior to the sale were important from year to year.

The premiums for the in-force business for the Taiwan insurance contracts are set by the regulator at different points for the industry as a whole. Premium rates were set to give a guaranteed minimum sum assured on death and a guaranteed surrender value on early surrender based on prevailing interest rates at the time of policy issue. Premium rates also included an allowance for mortality and expenses. The required rates of guarantee had fallen over time as interest rates fell from a high of 8.0 per cent to levels of around 1.4 per cent at December 31, 2008. The low bond rates in Taiwan gave rise to a negative spread against the majority of these policies.

The profits attached to the Taiwan traditional whole life insurance contracts, which almost wholly related to the agency business that Prudential has disposed, were affected by the rates of return earned on, and estimated to be earned on, the assets held to cover liabilities, and on future investment income and contract cash flows. The insurance liability was affected by the liability adequacy test results, which were sensitive to the attainment of the trended rates during the trending period and the level of the projected long-term rate, the impact of new business written and the level of the projected long-term rate on bonds.

Whole of life contracts with floor levels of policyholder benefits that accrue at rates set at inception, similar to those insurance contracts written in Taiwan, are written in the Korean life operations.

The other area of note in respect of guarantees is the Japanese business, where pricing rates are higher than current bond yields. Lapse risk is a feature in that policyholders could potentially surrender their policies on guaranteed terms if interest rates significantly increased, leaving the potential for losses if bond values had depreciated significantly. However, the business is matched to a relatively short realistic liability duration.

For the Korean and Japanese life business exposures described above, the results are comparatively unaffected by changes of assumption. The accounts basis value of liabilities for both operations are of a similar order of magnitude to those that apply for the purposes of Group solvency calculations under the Insurance Group Directive.

Separately, as noted above, IFRS 4 permits the continued usage of previously applied GAAP for insurance contracts and investment contracts with discretionary participating features. The results of the Group's Asian operations (other than the Hong Kong branch business of the UK regulated PAC with-profits fund) are prepared using previously applied GAAP.

The practical application of this policy may from time to time require the exercise of judgment. 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 January 1, 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 January 1, 2009 of £63 million.

Deferred acquisition costs

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

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

Jackson

A significant amount of the Group's deferred acquisition costs relate to Jackson. For term business, acquisition costs are deferred and amortized in line with expected premiums. For annuity business, acquisition costs are deferred and amortized 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 the Jackson companies, industry experience and future expectations. A detailed analysis of actual mortality experience is measured by the internally developed mortality studies.

For variable annuity business, as described above, the key assumption is the expected long-term level of equity market returns, determined using a mean reversion methodology.

Pensions

The Group applies the requirements of IAS 19, "Employee Benefits" to its defined benefit pension schemes. Due to the inclusion of actuarial gains and losses in the income statement rather than being recognized directly in equity, the results of the Group are affected by changes in interest rates for corporate bonds that affect the rate applied to discount projected pension payments and changes in mortality assumptions.

The economic participation in the surplus or deficits attaching to the main Prudential Staff Pension Scheme ("PSPS") and the smaller Scottish Amicable Pension Scheme ("SAPS") and M&G Scheme, are shared between the PAC with-profits sub-fund ("WPSF") and shareholder operations.

For PSPS the terms of the trust deed restrict shareholder access to any underlying surplus. Accordingly any underlying IAS 19 basis surplus is not recognized for IFRS reporting.

Deferred tax

Deferred tax assets are recognized to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The 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 capital or trading nature may affect the recognition of deferred tax assets. For the results for the first half of 2009 and balance sheet position at June 30, 2009, the possible tax benefit of approximately £234 million (December 31, 2008: £211 million), which may arise from capital losses valued at approximately £1.1 billion (December 31, 2008: £1 billion), is sufficiently uncertain that it has not been recognized. In addition, a potential deferred tax asset of £816 million (December 31, 2008: £678 million), which may arise from tax losses and other temporary differences totaling £2.8 billion (December 31, 2008: £2.2 billion), is sufficiently uncertain that it has not been recognized. Forecasts as to when the tax losses and other temporary differences are likely to be utilized indicate that they may not be utilized in the short term.

Goodwill

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

In the first half of 2009, the goodwill attaching to the acquisition of the Taiwan life business of £44 million in 1999, which at that time related solely to the agency business, was written off and the charge included in the loss on sale for the Taiwan agency business.

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

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

Insurance contract accounting

With the exception of investment contracts without discretionary participation features, the Group's life assurance contracts are classified as insurance contracts and investment contracts with discretionary participating features. Subject to the changes described below in respect of the Prudential Assurance Company with-profits business as permitted by IFRS 4, assets and liabilities of these contracts (see below) are accounted for under previously applied GAAP. Accordingly, except as described below, the modified statutory basis ("MSB") of reporting as set out in the revised Statement of Recommended Practice ("SORP") issued by the ABI in November 2003 has been applied.

From January 1, 2005 the Group has chosen to improve its accounting for UK regulated with-profits funds by the voluntary application of the UK accounting standard FRS 27, "Life Assurance". Under this standard, the main accounting changes that were required for with-profits funds of the Prudential Assurance Company were:

- derecognition of deferred acquisition costs and related deferred tax; and
- replacement of MSB liabilities with adjusted realistic basis liabilities.

The primary effect of these changes was to fundamentally alter the basis of accounting and carrying value of deferred acquisition costs and the reported level of unallocated surplus of with-profits funds of the Prudential Assurance Company from January 1, 2005.

Unallocated surplus represents the excess of assets over policyholder liabilities for the Group's with-profits funds and the Group has opted to account for it wholly as a liability with no allocation to equity. This treatment reflects the fact that shareholders' participation in the cost of bonuses arises only on distribution. As a consequence of this accounting treatment, shareholder profits on with-profits business continue to reflect the one-ninth cost of declared bonus.

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For Jackson, applying the MSB as applicable to overseas operations, the assets and liabilities of insurance contracts are accounted for under insurance accounting prescribed by US GAAP. For Asian operations the local GAAP is applied with adjustments, where necessary, to comply with IFRS. For Asian operations in countries where local GAAP is not well established and in which the business written is primarily non-participating business, US GAAP is used as the most appropriate proxy to local GAAP. The usage of these bases of accounting has varying effects on the way in which product options and guarantees are measured. For UK regulated with-profits funds, options and guarantees are valued on a market consistent basis. For other operations a market consistent basis is not applied.

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

Under IAS 39, derivatives are required to be carried at fair value. Unless hedge accounting is applied, value movements on derivatives are recognized in the income statement.

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

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

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

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

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

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

In this regard, the issues surrounding the IAS 39 application are very similar to those considered by other US life insurers when the US financial reporting standard FAS 133 was first applied for US GAAP reporting. Taking account of these considerations the Group has decided that, except for certain minor categories of derivatives, it is not appropriate to seek to achieve hedge accounting under IAS 39 by completely reconfiguring the structure of Jackson's derivative book. As a result of this decision, the total income statement results are more volatile as the movements in the value of Jackson's derivatives are reflected within it.

Under IAS 39, unless carried at amortized cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale, with value movements being recorded as movements within shareholders' equity unless arising from impairments.

Accounting for with-profits business

For with-profits business (including non-participating business of Prudential Annuities Limited which is owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognized in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profits for with-profits business and shareholders' funds would not be affected by

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adjustments to liabilities. This is because the income statements solely reflect one-ninth of the cost of bonuses declared for with-profits policies for the year.

Adjustments to the long-term business provision for the PAC with-profits fund would normally reflect changes that have also been reflected in the annual regulatory returns submitted to the FSA. Except to the extent of any second order effects on other elements of the regulatory returns, such changes can be expected to have a consequent effect on the excess of assets over liabilities of the fund for the purposes of solvency calculations, and the related free asset ratio which is an indicator of the overall financial strength of the fund. Similar principles apply to the Group's Asian with-profits business.

Profits recognition

As outlined in " Explanation of Movements in Profits After Tax and Profits Before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure United Kingdom Basis of Profits" below, Prudential's results include an annual profit distribution to shareholders from long-term with-profits funds that represents an amount of up to one-ninth of the value of that year's bonus declarations to policyholders. The distribution corresponds directly to the post-tax basis profit for with-profits business. The boards of directors of the subsidiary companies that have with-profits operations, using actuarial advice, determine the amount of annual and final bonuses to be declared each year on each group of contracts.

Unallocated surplus

As discussed above, the unallocated surplus represents the excess of assets over policyholder liabilities of the Group's with-profits funds. The annual excess or shortfall of income over expenditure of the with-profits funds after declaration and attribution of the cost of bonuses to policyholders and shareholders is transferred to, or from, the unallocated surplus through a charge or credit to the income statement. The balance is determined after full provision for deferred tax on unrealized appreciation of investments.

Changes to the level of the unallocated surplus do not directly impact shareholders' results or funds. After allowing for differences in the basis of preparation of the financial statements and UK regulatory returns, movements in the level of the unallocated surplus are broadly indicative of movements in the excess of regulatory basis assets over liabilities of the fund. In turn, movements in this excess as a proportion of liabilities are indicative of changes in the financial strength of the fund. Differences in the basis of preparation of financial statements and UK regulatory returns arise principally from the treatment of certain regulatory basis liabilities, such as mismatching reserves (that are accounted for as reserves within the unallocated surplus), recognition of deferred acquisition costs in the financial statements, and asset valuation differences and admissibility deductions reflected in the regulatory returns.

Fair value of assets

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

Changes in the fair value of assets of unit-linked (separate account) funds are normally accompanied by a matching change in unit-linked business liabilities that is also recognized in the income statement.

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Investment returns

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

Presentation of results before tax

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

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Summary Consolidated Results and Basis of Preparation of Analysis

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

	Six Months Ended June 30,	
	2009	2008
	(In £ Millions)	
Total revenue, net of reinsurance	**13,717**	(373)
Total charges	**(13,872)**	(366)
Loss before tax *(being tax attributable to shareholders' and policyholders' returns)**	**(155)**	(739)
Tax attributable to policyholders' returns	**79**	637
Loss before tax attributable to shareholders	**(76)**	(102)
Tax (expense)/credit	**(103)**	625
Less: tax attributable to policyholders' returns	**(79)**	(637)
Tax attributable to shareholders' (losses) profits	**(182)**	(12)
Loss for the period	**(258)**	(114)

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

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

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

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

a) Group overview

The £258 million loss for the period after tax for the first half of 2009 reflects the movement in results before tax attributable to shareholders, which improved from a loss of £102 million in the first half of 2008 to a loss of £76 million in the first half of 2009, and the increase in tax charge attributable to shareholders, which increased from £12 million in the first half of 2008 to £182 million in the first half of 2009.

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The movement in loss before tax attributable to shareholders primarily reflects improvements in three aspects of the Group's retained business (i.e., excluding the Taiwan agency business that was sold in June 2009, but including the retained Taiwan bank distribution business), namely a £537 million improvement in short-term fluctuations in investment returns on financial instruments, a £29 million improvement in the level of actuarial and other gains and losses on the Group's defined benefit pension schemes and a £41 million increase in operating profit based on longer-term investment returns, which were partially offset by an increase of £581 million in losses in respect of the Taiwan agency business which was sold in June 2009. These movements are discussed in detail in section c) below.

The effective tax rate for the first half of 2009 for the tax charge against a loss before tax attributable to shareholders was negative 239 per cent, compared to an effective tax rate of negative 12 per cent for the first half of 2008 for the tax charge against loss before tax attributable to shareholders. The movement in effective tax rates was principally due to there being no tax credit on the loss on sale of the Taiwan agency business together with prior year adjustments and an increase in profits coming from certain Asian countries which are not taxable. The effective tax rate on operating profit based on longer-term investment returns of the Group's retained businesses for the first half of 2009 was 26 per cent, which compares with an effective tax rate of 29 per cent for the first half of 2008.

b) Summary by business segment and geographical region

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 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).

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

	Six Months Ended June 30, 2009				
	Asia	US	UK	Unallocated corporate	Total
	(In £ Millions)				
Insurance operations	**(465)***	**206**	**187**		**(72)**
Asset management**	**16**	**(2)**	**77**		**91**
Total profit attributable to the segments	**(449)**	**204**	**264**		**19**
Unallocated corporate				**(277)**	**(277)**
Total (loss) profit for the period	**(449)**	**204**	**264**	**(277)**	**(258)**

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	Six Months Ended June 30, 2008				
	Asia	US	UK	Unallocated corporate	Total
	(In £ Millions)				
Insurance operations	(157)	48	138		29
Asset management	22	4	63		89
Total profit attributable to the segments	(135)	52	201		118
Unallocated corporate				(232)	(232)
Total (loss) profit for the period	(135)	52	201	(232)	(114)

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* Includes the loss on the sale of the Taiwan agency business of £559 million. Excluding this amount, the total profit for the period for Asian insurance operations would be £94 million.

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

Profit from insurance operations

Total loss from insurance operations in the first half of 2009 was £72 million compared to a profit of £29 million in the first half of 2008. All of the profits from insurance operations in the first half of 2009 and 2008 were from continuing operations and include the loss on sale of £559 million for the Taiwan agency business, the disposal of which was completed in June 2009 but did not qualify as a discontinued operation under IFRS. The movement in profits for insurance operations can be summarized as follows:

	Six Months Ended June 30,	
	2009	2008
	(In £ Millions)	
Profit before shareholder tax	**194**	90
Shareholder tax	**(266)**	(61)
(Loss) profit after tax	**(72)**	29

The increase of £104 million in profit before tax attributable to shareholders in the first half of 2009 compared to the first half of 2008 primarily reflects positive short-term fluctuations in investment returns on financial instruments and an increase in operating profit based on longer-term investment returns of the insurance operations, partially offset by the losses relating to the sale of the Taiwan agency business. The loss arising on the sale of the Taiwan agency business is explained further in the comparison of total loss arising from Asian insurance operations below.

The effective shareholder tax rate on profits from insurance operations increased from 68 per cent in the first half of 2008 to 137 per cent in the first half of 2009, with the movement primarily due to there being no tax credit on the losses relating to the sale of the Taiwan agency business.

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

Asia

Basis of profits

The assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with

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UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of UK GAAP in this respect is permitted.

For Asian operations in countries where local GAAP is not well established and in which the business is primarily non-participating and linked business, US GAAP is used as the most appropriate reporting basis. Of the more significant Asian operations, this basis is applied for the Group's life assurance businesses in Japan, Vietnam and, prior to disposal of the agency business, Taiwan. For with-profits business in Hong Kong, Singapore and Malaysia the basis of profit recognition is bonus driven.

Comparison of total loss arising from Asian insurance operations

The following table shows the movement in losses arising from Asian insurance operations from the first half of 2008 to the first half of 2009:

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Loss before shareholder tax	**(455)**	(165)
Shareholder tax	**(10)**	8
Loss after tax	**(465)**	(157)

The increase of £290 million in the loss before tax attributable to shareholders in the first half of 2008 to £455 million in the first half of 2009 primarily reflects the losses relating to the sale (as described below) and the trading results of the Taiwan agency business, partially offset by a favorable change of £223 million in the short-term fluctuations in investment returns for shareholder-backed business and an increase of £108 million in operating profit based on longer-term investment returns.

On the sale of the agency distribution business in Taiwan, a loss of £559 million was recorded. The overall size of loss reflects the carrying value of the IFRS equity of the business as applied in the calculation of the loss on sale and the application of 'grandfathered' US GAAP under IFRS 4 for 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 recognized 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. Under IFRS there is no recognition of the enhanced Insurance Group's Directive ('IGD') capital surplus position arising on completion of the sale of £0.8 billion.

Included in the loss on sale are associated fees and restructuring costs of £64 million, the most significant component of which is costs associated with the termination of employees. All these costs are expected to be incurred prior to the end of 2009. The loss on sale also includes a charge of £44 million for write off of goodwill attached to the business.

As discussed in " IFRS Critical Accounting Policies", a one off credit of £63 million arose in the first half of 2009 as a result of replacing the methodology for valuing the liabilities of the Malaysia life business by a method based on the Malaysian authority's risk based capital framework.

The effective shareholder tax rate changed from 5 per cent in the first half of 2008 to negative 2 per cent in the first half of 2009, with the movement principally due to there being no tax credit on the losses relating to the sale of the Taiwan agency business and the impact of prior year tax charges and profits in certain countries which are not taxable. The effective shareholder tax rate for the Asian insurance operations is low due to profits in certain Asian countries being not taxable.

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United States

Basis of profits

The profit on Jackson's business predominantly arises from spread income from interest-sensitive products, such as fixed annuities, institutional products and fee income on variable annuities, which are measured on a US GAAP basis.

Comparison of total profit arising from US insurance operations

The following table shows the movement in profits arising from US insurance operations from the first half of 2008 to the first half of 2009:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Profit before shareholder tax	**382**	51
Shareholder tax	**(176)**	(3)
Profit after tax	**206**	48

Of the £331 million increase in profit before tax attributable to shareholders for the first half of 2009 against the comparative period in 2008, the main driver was a favorable change of £346 million in the short-term value movements in financial instruments reflected in the income statement, which was partially offset by a decrease of £15 million in operating profit based on longer-term investment returns. The favorable short-term fluctuations in investment returns in the first half of 2009 for the US life insurance operations reflected the market value movements on freestanding derivatives held to manage the fixed annuity and other general business, partly offset by the short term fluctuation related to debt securities. Additional analysis has been provided in the table in section c). The decrease in operating profit based on longer-term investment returns was primarily a result of lower separate account fee income, lower spread income and higher hedging costs reflecting equity market and interest rate falls. These falls were offset by the effect of favorable exchange rate movements and a related reduction in DAC amortization.

The effective tax rate on profits from US operations increased from 6 per cent in the first half of 2008 to 46 per cent in the first half of 2009. The movement was caused by the inability to fully recognize deferred tax assets on losses being carried forward, partially offset by the benefit of a deduction from taxable income of a proportion of dividends received attributable to the variable annuity business.

United Kingdom

Basis of profits

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

With-profits products

For Prudential's UK insurance operations, the primary annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a combination of annual and final bonuses. Shareholders' profit in respect of bonuses from with-profits products represents an amount of up to one-ninth of the value of that year's bonus declaration to policyholders. The smoothing inherent in the bonus declarations gives rise to policyholder bonuses and annual shareholders' profit under IFRS from this business which are generally relatively stable in comparison to the underlying movements in assets and liabilities of the funds.

Bonus rates

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

Unallocated surplus

The annual excesses of premiums and investment returns over claim payments, operating expenses and the change in policyholder provisions within Prudential's with-profits fund that are not distributed in that year as bonuses and related shareholders' profit are transferred to the liability for unallocated surplus by a charge to the income statement of the with-profits fund. Any shortfall in such amounts would result in a transfer from the unallocated surplus by a credit to the income statement of the with-profits fund. Current year amounts in respect of premiums, investment returns, operating expenses and other charges or credits do not directly affect the distribution of profit to shareholders from the with-profits business in that year. Current year claims, which include final bonus payments, do have an effect on shareholders' profit through the shareholders' proportion of the value of those final bonuses.

Surplus assets and their use

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

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

The "SAIF" and "PAL" funds

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

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Comparison of total profit arising from UK insurance operations

Profit after tax from UK insurance operations increased by £46 million from £134 million in the first half of 2008 to £180 million in the first half of 2009:

The following table shows the movement in profits arising from UK insurance operations from the first half of 2008 to the first half of 2009:

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Profit before shareholder tax	**267**	204
Shareholder tax	**(80)**	(66)
Profit after tax	**187**	138

The increase in profit before tax attributable to shareholders of £63 million primarily reflects an increase in operating profit based on longer-term investment returns of £44 million and a favorable change in the value of short-term fluctuations in financial instruments of the shareholder-backed business of £19 million. The increase in the operating profit based on longer-term investment returns resulted from growth in the shareholder-backed annuity business, partially offset by a reduction in profits attributable to the with-profits business. This reflected the impact of bonus rate reductions in the February 2009 bonus declaration made in response to recent volatile investment performance. IFRS profit for the first half of 2009 included general insurance commission of £27 million (first half of 2008: £14 million).

The effective shareholder tax rate on profits from UK insurance operations for the first half of 2009 of 30 per cent compares with an effective tax rate of 32 per cent in the first half of 2008.

Profit from asset management

Total profit from asset management increased from £89 million in the first half of 2008 to £91 million in the first half of 2009. The following table shows the movement in profits from asset management from the first half of 2008 to the first half of 2009:

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Profit before shareholder tax	**126**	115
Shareholder tax	**(35)**	(26)
Profit after tax	**91**	89

The £11 million increase in profit before tax resulted primarily from an increase in profit generated by M&G, which moved from a profit before tax of £80 million in the first half of 2008 to a profit before tax of £103 million in the first half of 2009. The Group's Asian asset management operations and US broker-dealer operations experienced declines, with profit before shareholder tax reducing by £8 million and £4 million respectively from the first half of 2008 to the first half of 2009.

The £23 million increase in profit before tax attributable for M&G reflected a favorable movement of £38 million in actuarial gains and losses on its defined benefit scheme and a positive movement of £29 million in respect of short-term fluctuations in investment returns, which were partially offset by a decrease in operating profit based on longer-term investment returns of £44 million. The decrease in

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operating profit based on longer-term investment returns reflected the relative levels of equity markets between 2008 and 2009.

The effective tax rate on profits from asset management operations increased from 23 per cent in the first half of 2008 to 28 per cent in the first half of 2009. The increase in effective rate reflects deferred tax on capital losses being recognized in the first half of 2008 that were not available in the first half of 2009.

Unallocated corporate

Total net of tax charges for unallocated corporate activity increased by £45 million from £232 million in the first half of 2008 to £277 million in the first half of 2009.

The following table shows the movement in the unallocated corporate result from the first half of 2008 to the first half of 2009:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Loss before shareholder tax	**(396)**	(307)
Shareholder tax	**119**	75
Loss after tax	**(277)**	(232)

The significant movement in loss before shareholder tax primarily resulted from an adverse movement in other income and expenditure of £67 million, from £124 million in the first half of 2008 to £191 million in the first half of 2009, a negative movement of £13 million in short-term fluctuations in investment returns, from a loss of £131 million in the first half of 2008 to a loss of £144 million in the first half of 2009, and an adverse change of £9 million in actuarial gains and losses on the Group's defined benefit pension schemes in the first half of 2009 in comparison to the first half of 2008. The increase of £64 million in the income and expenditure reflects a reduction in the earned returns in central funds and the non-recurrence of one-off items of positive £18 million in 2008. Additional analysis of the movement in short term fluctuations is provided in section c).

The total unallocated corporate result for the first half of 2009 included a one-off £216 million cost arising from the hedge temporarily put in place during the first quarter to protect the Group's IGD capital surplus in the light of exceptional market conditions. During the extreme equity market conditions experienced in the first quarter of 2009, with historically high equity volatilities, the Group entered into exceptional overlay short-dated hedging contracts to protect against potential tail-events on the IGD capital position, in addition to its regular operational hedging programs. The 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 profit and loss account in this period. At June 30, 2009, the Group held equity options for this potential exposure with a remaining fair value of £36 million. The Group fully anticipates that these options will be held to their expiration, with all options expiring before the end of 2009.

The movements on unallocated actuarial and other gains and losses on the Group's defined benefit pension schemes were primarily due to the provision set up for deficit funding which was partly offset by gains in respect of changes of assumptions for scheme liabilities and actual returns on schemes assets being higher than the expected returns.

The effective tax rate on unallocated corporate result increased from 24 per cent in the first half of 2008 to 30 per cent in the first half of 2009. The increase related to the inability to recognize a deferred tax asset on various tax losses.

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

For many years, the assessment of performance by management has been, and continues to be, applied to profit before shareholder tax by analysis of the result between operating profit based on longer-term investment returns and other reconciling items. The focus on profit before shareholder tax, rather than profit before policyholder and shareholder tax, reflects the shareholders' interests in surpluses as they arise and the regulatory basis of ring-fenced long-term funds in the UK. In particular, taxes borne by policyholders of with-profits contracts are borne by the liability for unallocated surplus of with-profits funds.

Until the adoption of IFRS, operating profit based on longer-term investment returns was a UK GAAP measure arising from the specific recommendation of the Statement of Recommended Practice ("SORP") for accounting for insurance business issued by the ABI. With the adoption of IFRS, the ABI SORP was no longer authorative literature for the purposes of determining the Group's GAAP measures. Nevertheless, it continued to be the basis applied by the Group for internal performance assessment and a fundamental element of the analysis provided to shareholders and the UK stock market. In 2009, the Group adopted IFRS 8 and, consistent with previous practice, applied 'operating profit based on longer-term investment returns' as the performance measure under this standard, thus bringing it within the IFRS framework. The analysis that follows reflects information published with the Group's interim results on August 13, 2009.

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

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 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 Group Executive Committee ('GEC') include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and 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.

Longer-term investment returns included within the performance measure are determined by reference to expected long-term rates of return. These are intended to reflect historical rates of return on assets and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The overriding reason for distinguishing longer-term investment returns from short-term fluctuations is that the investments are generally held for the longer-term to back long duration insurance contract liabilities and solvency capital rather than for short-term trading purposes.

Furthermore, the income statement recognition of investment appreciation, short-term value movements on derivatives, and the charge for the policyholder benefits under IFRS 4 give rise to accounting mismatches that are not representative of the underlying economic position.

Additional details on the determination of operating profit based on longer-term investment returns are provided in Note C of the unaudited condensed consolidated interim financial statements.

Actuarial and other gains and losses on defined benefit pension schemes principally reflect short-term value movements on scheme assets and the effects of changes in actuarial assumptions.

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Under the Group's accounting policies these items are recorded within the income statement, rather than through other comprehensive income, solely due to the interaction of the Group's approach to adoption of IFRS 4 for with-profits funds and the requirements of IAS 19. In analyzing loss before shareholder tax the separate identification of these gains and losses is analogous to the more normal treatment of inclusion as a movement on other comprehensive income, i.e. not within the loss for the period.

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

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

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Loss before tax	**(155)**	(739)
Tax attributable to policyholders' returns	**79**	637
Loss before tax attributable to shareholders	**(76)**	(102)
Tax expense	**(103)**	625
Less: tax attributable to policyholders' returns	**(79)**	(637)
Tax attributable to shareholders' profits	**(182)**	(12)
Loss for the period	**(258)**	(114)

A reconciliation of loss before shareholder tax to operating profit based on longer-term investment returns is provided below:

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Performance measure: operating profit based on longer-term investment returns (i)	**688**	647
Short-term fluctuations in investment returns on shareholder-backed business (ii)	**(80)**	(617)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(63)**	(92)
Loss on sale and results for Taiwan agency business (iii)	**(621)**	(40)
Loss before tax attributable to shareholders	**(76)**	(102)

Notes

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

Operating profit based on longer-term investment returns is a performance measure of results under IFRS 8. For the purposes of measuring operating profit, investment returns on shareholder-financed business are based on expected long-term rates of return. The long-term rates of return are intended to reflect historical real rates of return and, where appropriate, current inflation expectations adjusted for consensus economic and investment forecasts. The amounts included in operating results for long-term returns for debt securities incorporate a risk margin reserve based charge for expected defaults, which is determined by reference to the credit quality of the portfolio, and amortization of interest-related realized gains and losses to the date when sold bonds would otherwise have matured.

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In £ Millions)	
Insurance operations:		
Asia (note (a))	**(41)**	(197)
US (note (b))	**165**	(181)
UK (note (c))	**(63)**	(82)
Other operations		
IGD hedge costs (note (d))	**(216)**	
Other (note (e))	**75**	(157)
	(141)	(157)
Total	**(80)**	(617)

Notes

(a) Asian insurance operations

The short-term fluctuations in investment returns for Asian insurance operations in the first half of 2009 of a charge of £41 million primarily related to unrealized losses on the shareholder debt portfolio in the period.

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(b) US insurance operations

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

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Short-term fluctuations relating to debt securities:		
Charges in the period (note 1)		
Defaults		
Losses on sales of impaired and deteriorating bonds	**(44)**	(6)
Bond write downs	**(324)**	(103)
Recoveries/reversals	**2**	1
	(366)	(108)
Less: Risk margin charge included in operating profit based on longer-term investment returns	**41**	23
	(325)	(85)
Interest related realized gains (losses):		
Arising in the period	**75**	(2)
Less: Amortization of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	**(34)**	(15)
	41	(17)
Related change to amortization of deferred acquisition costs	**37**	14
Total short-term fluctuation related to debt securities	**(247)**	(88)
Derivatives (other than equity related): Market value movement (net of related change to amortization of deferred acquisition costs) (note 2)	**339**	(64)
Equity type investments: Actual less longer-term return (net of related change to amortization of deferred acquisition costs)	**(40)**	(32)
Other items (net of related change to amortization of deferred acquisition costs) (note 3)	**113**	3
Total	**165**	(181)

1.

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

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Residential mortgage-backed securities:		
Prime	**123**	6

Alt-A	**98**	75
Sub prime	**18**	
Total residential mortgage-backed securities	**239**	81
Piedmont securities (an 80% Jackson held static trust)	**5**	
Corporates	**80**	22
Losses on sales of impaired and deteriorating bonds, net of recoveries	**42**	5
	366	108

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2. The gain of £339 million (first half of 2008: charge of £64 million) in 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 recognized 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 the commercial effects to which the variable annuity derivative program relates.

   For the derivatives program 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.

3. The £113 million gain (first half of 2008: gain of £3 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 unrealized losses on debt securities classified as available-for-sale of £808 million (first half of 2008: increase in net unrealized losses of £677 million). These temporary market value movements do not reflect defaults or impairments. Additional details on the movement in the value of the Jackson portfolio are included in note M to the unaudited condensed consolidated interim financial statements.

(c) UK insurance operations

The short-term fluctuations charge for UK insurance operations of £63 million in the first half of 2009 reflected asset value movements principally on the shareholder backed annuity business.

(d) 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 programs. 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 June 30, 2009 the Group held equity options for this potential exposure with a remaining fair value of £36 million. The Group fully anticipate that these options will be held to their expiration, with all options expiring before the end of 2009.

(e) Other operations

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

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(iii)

Loss on sale and results for 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.

Management believes exclusion of the Taiwan agency business from its chosen performance measure better reflects the underlying trends of the retained business and therefore provides additional useful information to users.

The following tables reconcile "Operating profit based on longer-term investment returns", the Group's performance measure under IFRS 8, to "Loss before tax attributable to shareholders", the Group's reported performance within the consolidated IFRS income statement, by business segment and geography.

	Six Months Ended June 30, 2009				
	Asia	US	UK	Unallocated corporate	Total
	(In £ Millions)				
Insurance operations:					
Performance measure: Operating profit based on longer-term investment returns	207	217	330		754
Short-term fluctuations in investment returns	(41)	165	(63)		61
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes					
Loss on sale and results for Taiwan agency business	(621)				(621)
Reported performance: (Loss) profit before tax attributable to shareholders	(455)	382	267		194
Asset management:					
Performance measure: Operating profit based on longer-term investment returns	21	2	102		125
Short-term fluctuations in investment returns			3		3
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes			(2)		(2)
Reported performance: Profit before tax attributable to shareholders	21	2	103		126
Unallocated corporate:					
Performance measure: Operating profit based on longer-term investment returns				(191)	(191)
Short-term fluctuations in investment returns				(144)	(144)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes				(61)	(61)
Reported performance: (Loss) profit before tax attributable to shareholders				(396)	(396)
Total:					
Performance measure: Operating profit based on longer-term investment returns	228	219	432	(191)	688
Short-term fluctuations in investment returns	(41)	165	(60)	(144)	(80)
Shareholders' share in actuarial and other gains and losses on defined benefit pension schemes			(2)	(61)	(63)
Loss on sale and results for Taiwan agency business	(621)				(621)
Reported performance: Loss before tax attributable to shareholders	(434)	384	370	(396)	(76)

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	Six Months Ended June 30, 2008*				
	Asia	US	UK	Unallocated corporate	Total
	(In £ Millions)				
Insurance operations:					
Performance measure: Operating profit based on longer-term investment returns	72	232	286		590
Short-term fluctuations in investment returns	(197)	(181)	(82)		(460)
Shareholders' share in actuarial gains and losses on defined benefit pension schemes					
Results of sold Taiwan agency business	(40)				(40)
Reported performance: (Loss) profit before tax attributable to shareholders	(165)	51	204		90
Asset management:					
Performance measure: Operating profit based on longer-term investment returns	29	6	146		181
Short-term fluctuations in investment returns			(26)		(26)
Shareholders' share in actuarial gains and losses on defined benefit pension schemes			(40)		(40)
Reported performance: Profit before tax attributable to shareholders	29	6	80		115
Unallocated corporate:					
Performance measure: Operating profit based on longer-term investment returns				(124)	(124)
Short-term fluctuations in investment returns				(131)	(131)
Shareholders' share in actuarial gains and losses on defined benefit pension schemes				(52)	(52)
Reported performance: (Loss) profit before tax attributable to shareholders				(307)	(307)
Total:					
Performance measure: Operating profit based on longer-term investment returns	101	238	432	(124)	647
Short-term fluctuations in investment returns	(197)	(181)	(108)	(131)	(617)
Shareholders' share in actuarial gains and losses on defined benefit pension schemes			(40)	(52)	(92)
Results of sold Taiwan agency business	(40)				(40)
Reported performance: (Loss) profit on continuing operations before tax attributable to shareholders	(136)	57	284	(307)	(102)

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

Group operating profit based on longer-term investment returns

In the first half of 2009, Group operating profit based on longer-term investment returns was £688 million compared to £647 million in the first half of 2008, an increase of 6 per cent.

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Since the first half of 2008, the Group has improved the way in which it analyzes its results by classifying pre-tax operating profits from its life businesses into the following five distinct areas, reflecting the specific nature of each profit stream:

Investment spread this represents the difference between investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts.

Asset management fees this represents profits driven by investment performance, being asset management fees that vary with the size of the underlying policyholder funds, net of investment management expenses and profits derived from spread.

Net expense margin this represents expenses charged to the income statement account (excluding those borne by the with-profits fund and those products where earnings are purely protection driven), including amounts relating to movements in deferred acquisition costs, net of any fees or premium loadings related to expenses. Jackson DAC amortization (net of hedging effects), which is intended to be part of the expense margin, has been separately highlighted in the table below.

Insurance margin profits derived from the insurance risks of mortality, morbidity and persistency, including fees earned on variable annuity guarantees.

With-profits business accrued shareholders' transfer (gross of tax) from the with-profits fund in the period.

Other represents a mixture of other income and expenses that are not directly allocated to the underlying drivers, including non-recurring items and Asian development expenses.

The Group believes that this approach provides a better understanding of the underlying trends in its markets and a simpler and more effective framework to present its results, and is shown in the table and explanations below.

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

	Six months ended June 30, 2009 (In £ Millions)	2008
Investment spread	**514**	422
Asset management fees	**203**	221
Net expense margin	**(209)**	(249)
DAC amortization (Jackson only)	**(160)**	(165)
Net insurance margin	**217**	127
With-profits business	**158**	210
Non-recurrent release of reserves for Malaysian life operation	**63**	
Other	**(59)**	10
Total	**727**	576

* Excludes UK general insurance commission (first half 2009: £27 million; first half 2008 £14 million).

Investment spread increased by £92 million to £514 million in the first half of 2009 compared to the first half of 2008. This was driven by an increase in the Group's UK investment spread income of £40 million, principally arising from UK shareholder-backed annuity business, reflecting both its disciplined approach to annuity pricing and the higher returns arising from increased shareholder assets.

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The balance arises primarily from favorable exchange rate movements offsetting the fall in spread income in Asia and the US.

Asset management fees fell by 8 per cent to £203 million in the first half of 2009 compared to the first half of 2008, with lower fee income earned as a result of falling asset values being offset by favorable exchange rate movements.

The net expense margin represents expenses net of relevant charges and loadings and has improved by 16 per cent compared to the first half of 2008 to a net expense of £209 million in the first half of 2009. This benefit arose predominantly as a result of lower new business strain (as defined below) in Asia, primarily reflecting lower new business volumes and the non-recurrence of one-off expenses incurred in the UK.

Net insurance margin has increased by 71 per cent in the first half of 2009 against the corresponding period in 2008, reflecting strong growth in the Asian in-force book and positive claims experience in the US.

Profits from with-profits business were £158 million in the first half of 2009 compared with £210 million in the same period in 2008, reflecting lower bonus rates as a result of market falls.

2009 includes a £63 million one-off credit arising from the release of regulatory reserves in Malaysia following a change in reserving basis with the introduction of a Risk Based Capital approach.

Other of negative £59 million is primarily as a result of increased hedging costs in the US.

Insurance operations

Asia's operating profit based on longer-term investment returns for insurance operations was £212 million in the first half of 2009 (before development expenses of £5 million) compared to £75 million (before development expenses of £3 million) in the first half of 2008. The increase in Asia's operating profit for insurance operations reflected a combination of higher insurance margins, lower new business strain and favorable exchange rate movements, and a one-off benefit arising from a regulatory change in Malaysia of £63 million.

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

	Six months ended June 30,	
	2009	**2008**
	(In £ Millions)	
New business strain	**(47)**	(71)
Business in force	**259**	146
Total Asian insurance operations	**212**	75
Development expenses	**(5)**	(3)
Total Asian long-term business operating profit	**207**	72

The IFRS new business strain corresponded to approximately 8 per cent of new business APE premiums for the first half of 2009 (first half of 2008: approximately 11 per cent of new business APE).

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

In the United States, operating profit based on longer-term investment returns was £217 million in the first half of 2009, down 6 per cent from £232 million in the first half of 2008. The decrease for US

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insurance operations mainly reflected lower separate account fee income, lower spread income and higher hedging costs, reflecting equity market and interest rate falls. These falls were offset partially by the effect of favorable exchange rate movements and a related reduction in DAC amortization.

In the United Kingdom, operating profit based on longer-term investment returns for the life insurance business increased 15 per cent to £303 million in the first half of 2009, reflecting growth from the shareholder backed annuity business, partially offset by lower profits attributable to the with-profits business.

An analysis of the operating profit based on longer-term investment returns by drivers for the life insurance operations for the first half of 2009 and 2008 is provided in the tables below. The analysis by drivers has been made using the categorization as described above under " Group operating profit based on longer-term investment returns".

	Six months ended June 30, 2009			
	Asia	**US**	**UK (note (c))**	**Total**
	(In £ Millions)			
Investment spread	**35**	**314**	**165**	**514**
Asset management fees	**34**	**142**	**27**	**203**
Net expense margin	**(68)**	**(105)**	**(36)**	**(209)**
DAC amortization (Jackson only)		**(160)**		**(160)**
Net insurance margin	**137**	**97**	**(17)**	**217**
With-profits business	**11**		**147**	**158**
Non-recurrent release of reserves for Malaysia Life operations	**63**			**63**
Other (note a)	**(5)**	**(71)**	**17**	**(59)**
Total	**207**	**217**	**303**	**727**

	Six months ended June 30, 2008			
	Asia (note (b))	**US**	**UK**	**Total**
	(In £ Millions)			
Investment spread	36	261	125	422
Asset management fees	31	148	42	221
Net expense margin	(95)	(93)	(61)	(249)
DAC amortization (Jackson only)		(165)		(165)
Net insurance margin	91	35	1	127
With-profits business	12		198	210
Other (note a)	(3)	46	(33)	10
Total	72	232	272	576

Notes

(a)

Asia other includes development expenses of £5 million (first half of 2008: £3 million).

(b)

Sale of Taiwan agency business.

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

(c) Excludes UK general insurance commission (first half of 2009: £27 million; first half of 2008: £14 million).

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Asset management

M&G's operating profit based on longer-term investment returns in the first half of 2009 was £102 million, a decrease of 30 per cent compared to the £146 million recorded for the same period in 2008. The decrease reflects the relative levels of the equity markets in which M&G funds were invested between the first half of 2008 and 2009.

In the United States, operating profit based on longer-term investment returns was down from £6 million in the first half of 2008 to £2 million in the first half of 2009. The decrease was primarily due to a decrease in profits from the broker-dealer operations.

Operating profit based on longer-term investment returns for the Asian asset management business decreased by 28 per cent, from £29 million in the first half of 2008 to £21 million in the first half of 2009, due largely to lower average funds under management, a change in asset mix and a private equity loss in India of £6 million.

Unallocated corporate

The adverse movement of £67 million in the operating result to negative £191 million primarily reflected a reduction in the earned return on central funds of £32 million, restructuring costs of £12 million and the non-recurrence of one-off items of positive £19 million in the first half of 2008.

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Explanation of Movements in Profits Before Shareholder Tax by Nature of Revenue and Charges

The following table shows Prudential's consolidated total revenue and consolidated total charges for the following periods.

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Earned premiums, net of reinsurance	**9,518**	8,926
Investment return	**3,625**	(9,752)
Other income	**574**	453
Total revenue, net of reinsurance	**13,717**	(373)
Benefits and claims and movement in unallocated surplus of with-profits funds	**(10,783)**	1,479
Acquisition costs and other operating expenditure	**(2,446)**	(1,763)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(84)**	(82)
Loss on sale of Taiwan Agency business	**(559)**	
Total charges, net of reinsurance	**(13,872)**	(366)
Loss before tax *(being tax attributable to shareholders' and policyholders' returns)**	**(155)**	(739)
Tax attributable to policyholders' returns	**79**	637
Loss before tax attributable to shareholders	**(76)**	(102)
Tax attributable to shareholders' (losses) profits	**(182)**	(12)
Loss for the period	**(258)**	(114)

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

Earned premiums

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Asian operations	**2,693**	2,769
US operations	**3,932**	2,752
UK operations	**2,893**	3,405

Total	**9,518**	8,926

Earned premiums, net of reinsurance, for insurance operations totaled £9,518 million in the first half of 2009 compared to £8,926 million in the first half of 2008. The increase of £592 million for the first half of 2009 was driven by growth of £1,180 million in the US operations that was partially offset by a decrease of £512 million in the UK operations and a decrease of £76 million in the Asian operations.

a) Asia

Earned premiums in the first half of 2009 and 2008 were £2,693 million and £2,769 million, respectively, a decrease of 3 per cent.

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The Group's strategy in Asia is to continue to build quality, multi-channel distribution that it believes delivers customer-centric and profitable products, with an emphasis on retirement solutions.

While each market in the Group's Asian portfolio has its own unique features, there are certain common themes. In a more volatile economic environment, customers have generally been more cautious about committing lump sums to savings orientated policies, particularly policies with direct market exposure such as unit linked products. This trend has been particularly evident in Korea and to a lesser extent in Hong Kong and Singapore. As a result, regular premium and higher-margin protection business for the Group's Asian operations as a whole has remained resilient, while single premium business has decreased sharply.

b) United States

Earned premiums from insurance contracts increased by 43 per cent from £2,752 million in the first half of 2008 to £3,932 million in the first half of 2009.

The continued volatility in the equity markets has seen customers seek to limit their risks by buying fixed annuities, fixed index annuities or variable annuities with guaranteed living benefits. Variable annuity sales increased significantly in the first half of 2009 over the same period in 2008, reflecting the second-quarter equity market rally in 2009. Fixed annuity sales were lower on a local currency basis but showed an increase over 2008 due to the strengthening of the UK currency over the US dollar in 2009.

c) United Kingdom

Earned premiums for UK operations decreased from £3,405 million in the first half of 2008 to £2,893 million in the first half of 2009. Sales of with-profits bonds continued to grow but this was more than offset by lower sales of individual annuities, offshore bonds and corporate pensions, with the Group focusing on value over volume. In addition, the decrease in earned premiums in the first half of 2009 compared to the first half of 2008 principally reflected the fact that a bulk annuity reinsurance contract with Goldman Sachs for the reinsurance of Rothesay Life's non-profit annuity business was completed in the first half of 2008.

Investment return

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Asian operations	**1,803**	(1,669)
US operations	**1,917**	(947)
UK operations	**30**	(7,168)
Unallocated corporate	**(125)**	32
Total	**3,625**	(9,752)

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realized and unrealized gains) and losses on investments designated as fair value through profit and loss and realized gains and losses, including impairment losses, on securities designated as available-for-sale.

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, policyholders or the unallocated surplus of with-profits funds. Therefore the investment return shown in the income statement includes significant amounts which are attributable to policyholders or the unallocated surplus of with-profits funds, and which have no net impact on shareholders' profit.

Investment returns for unit-linked and similar products have a reciprocal impact on benefits and claims, with a change in market returns on the attached pool of assets having a reciprocal effect on policyholder benefits for these products. Similarly there is a broad correlation between increases or decreases in the values of assets of funds and changes in the level of combined charge for benefits and movement on unallocated surplus of with-profit funds.

The period on period changes in investment return for both the UK and Asian operations, and those of the US operations (principally arising on investments backing the US separate account liabilities) primarily reflect the generality of overall market movements for equities, debt securities and, in the UK, for investment property. In addition, for Asian operations and the assets of the US separate account business, foreign exchange rates affect the sterling value of the translated income. Consistent with the treatment applied for other items of income and expenditure, investment returns for overseas operations are translated at average exchange rates.

a) Asia

The table below provides an analysis of investment return attributable to Asian operations for the periods presented:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Interest/dividend income (including foreign exchange gains and losses)	**408**	285
Investment appreciation (depreciation)*	**1,395**	(1,954)
Total	**1,803**	(1,669)

* Investment appreciation (depreciation) comprises realized and unrealized gains and losses on the investments.

In the Group's Asian operations, equities and debt securities accounted for 45% and 45%, respectively of the total investment portfolio at June 30, 2009. The remaining 10% of the total investment portfolio was primarily comprised of loans and deposits with credit institutions. 82% of the equity portfolio was accounted for by the portfolio of the Singapore, Hong Kong and India operations, held principally by the with-profits funds and to back unit-linked assets. 53% of the debt securities were government debt securities, of which 75% of the government debt securities were accounted for by the portfolio of the Singapore, Hong Kong, Japan and Vietnam operations. At June 30, 2009, the total proportion of the investment portfolio invested in equities and debt securities was of a similar magnitude to that as at June 30, 2008. In Asia, the investment return has changed from a £1,669 million charge in the first half of 2008 to a £1,803 million credit in the first half of 2009. This change was due to a £123 million increase in interest and dividend income (including foreign exchange gains and losses) and an increase of £3,349 million in investment appreciation compared to the same period in 2008. The increase of £3,349 million in investment appreciation was driven by a significant positive movement as a result of the improved Asian financial markets in the first half of 2009, in comparison to the significant downturn in equity markets experienced in the first half of 2008.

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b) United States

The table below provides an analysis of investment return attributable to US operations for the periods presented:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Realized losses (including impairment losses) on available-for-sale bonds	**(291)**	(110)
Investment return of investments backing US separate account liabilities	**772**	(1,454)
Other investment return	**1,436**	617
Total	**1,917**	(947)

In the US, investment return increased from a £947 million charge in the first half of 2008 to a £1,917 million credit in the first half of 2009. This £2,864 million favorable change was due to a £181 million increase in realized losses on debt securities classified as available-for-sale which was more than offset by an increase in the investment return of the investments backing the US variable annuity separate account liabilities of £2,226 million and an increase of £819 million in other investment returns. Realized losses in the first half of 2008 were £110 million compared to £291 million in the first half of 2009 and were related to losses incurred in the debt securities portfolio due primarily to losses on the sale of bonds and write downs. The primary driver of the increase in US investment return was the increase in returns on investments backing the US variable annuity separate account liabilities as a result of more favorable movements in US equity markets. The investment return of the investment assets backing US separate account liabilities increased by £2,226 million from a £1,454 million charge in the first half of 2008 to a £772 million credit in the first half of 2009. The increase of £819 million in other investment return included a £380 million increase in the fair value of derivatives held to manage the general account business.

c) United Kingdom

The table below provides an analysis of investment return attributable to UK operations for the periods presented:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Interest/dividend income	**3,149**	3,519
Foreign exchange gains and losses*	**1,186**	(299)
Investment depreciation**	**(4,305)**	(10,388)
Total	**30**	(7,168)

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* Foreign exchange gains and losses on retranslation of non-sterling based assets, including foreign currency forwards, principally of the UK with-profits fund.

** Investment appreciation (depreciation) comprises realized and unrealized gains and losses on the investments.

In the Group's UK operations, equities, debt securities and investment properties accounted for 28%, 51% and 9%, respectively of the total investment portfolio at June 30, 2009. The remaining 12% of the total investment portfolio at June 30, 2009 related to loans, deposits with credit institutions, investment in partnerships in investment pools and derivative assets. Within debt securities of £60,197 million at June 30, 2009, 86% was comprised of corporate debt securities. At June 30, 2009 the total proportion of the investment portfolio held in equities, debt securities and investment properties was of a similar magnitude to that as at June 30, 2008. In the UK, the investment return improved by £7,198 million, from a £7,168 million charge in the first half of 2008 to a £30 million credit in the first half of 2009. This favorable change comprised a decrease of £370 million in interest and dividend income, which was more than offset by an increase of £1,485 million in foreign exchange gains and a decrease in investment depreciation of £6,083 million. The reduction in interest and dividend income of £370 million primarily reflects the combined effects of lower dividend declarations and interest rates and portfolio changes from equities to other asset classes. The foreign exchange gains of £1,186 million in the first half of 2009 mainly related to gains from foreign currency forwards of the UK with-profits fund as the sterling appreciated above those levels in 2008. The investment depreciation of £4,305 million in the first half of 2009 was lower than the depreciation of £10,388 million in the first half of 2008, reflecting the significant reduction in investment depreciation compared to the higher levels of negative returns experienced in the first half of 2008.

d) Unallocated corporate

The investment return for unallocated corporate decreased from a credit of £32 million in the first half of 2008, to a charge of £125 million in the first half of 2009. The period to period changes in investment return related mainly to a one-off £216 million IGD hedge charge incurred in the first half of 2009 as explained in the previous section.

Benefits and claims and movement in unallocated surplus of with-profits funds

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Asian operations	**(3,589)**	(720)
US operations	**(4,985)**	(1,654)
UK operations	**(2,209)**	3,853
Total	**(10,783)**	1,479

The underlying reasons for the period to period changes in benefits and claims and movement in unallocated surplus in each of the Group's regional operations are changes in the incidence of claims incurred, increases or decreases in policyholders' liabilities, and movements in unallocated surplus of with-profits funds.

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

Total benefits and claims and movement in unallocated surplus of with-profits funds increased to a charge of £10,783 million in the first half of 2009 compared to a credit of £1,479 million in the first half

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of 2008. The amount of this period to period change attributable to each of the underlying reasons as stated above are shown below:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Group		
Claims incurred	**(8,065)**	(7,556)
Decrease (increase) in policyholder liabilities	**(4,036)**	7,622
Movement in unallocated surplus of with-profits funds	**1,318**	1,413
Benefits and claims and movement in unallocated surplus	**(10,783)**	1,479

The principal driver for variations in amounts allocated to policyholders is changes to investment return reflected in the balance sheet measurement of liabilities for the Group's with-profits, SAIF and unit-linked policies (including US separate account business). In addition, for those liabilities under IFRS, in particular liabilities relating to the UK annuity business (principally PRIL), where the measurement reflects the yields on assets backing the liabilities, the year to year changes in investment yields also contribute significantly to variations in the measurement of policyholder liabilities. The principal driver for variations in the change in unallocated surplus of with-profits funds is the value movements on the investment assets of the with-profits funds to the extent not reflected in the policyholder liabilities.

The principal variations in the increases or decreases in policyholder liabilities and movements in unallocated surplus of with-profits funds for each regional operation are discussed further below.

a) Asia

In the first half of 2009, benefits and claims and movement in unallocated surplus of with-profits funds totaled £3,589 million, up £2,869 million on £720 million in the first half of 2008. The amounts of the period to period change attributable to each of the underlying reasons are shown below:

	Six Months Ended June 30, 2009	2008
	(In £ Millions)	
Claims incurred	**(847)**	(631)
Increase in policyholder liabilities	**(2,174)**	(555)
Movement in unallocated surplus of with-profits funds	**(568)**	466
Benefits and claims and movement in unallocated surplus	**(3,589)**	(720)

The period to period variation in the movement in policyholder liabilities was primarily due to movements in investment returns. This was as a result of asset value movements, which are reflected in the unit value of the unit-linked policies that represent a significant proportion of the Asian operation's business. In addition, the policyholder liabilities of the Asian operations' with-profits policies also fluctuated with the investment performance of the funds.

Accordingly, due to the significant improvement in market returns in the first half of 2009 compared to the first half of 2008, there was a related increase in the charge for benefits and claims in the period. The movement in the unallocated surplus of with-profits funds during the first half of 2009 was a charge of £568 million compared with a credit of £466 million for the first half of 2008, reflecting the higher investment return of the funds during the period.

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b) United States

Except for institutional products and certain term annuities which are classified as investment products under IAS 39 for the purposes of IFRS reporting, deposits into these products are recorded as premiums, withdrawals and surrenders, and are included in benefits and claims, and the resulting net movement is recorded under other reserve movements within benefits and claims. Benefits and claims also include interest credited to policyholders in respect of deposit products less fees charged on these policies.

In the first half of 2009, the accounting charge for benefits and claims increased by £3,331 million to £4,985 million over the same period in the prior year. The amounts of the period to period change attributable to each of the underlying reasons are shown below:

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Claims incurred	**(2,207)**	(1,669)
(Increase) decrease in policyholder liabilities	**(2,778)**	15
Benefits and claims	**(4,985)**	(1,654)

The increase in claims incurred of £538 million from £1,669 million in the first half of 2008 to £2,207 million in the first half of 2009 primarily reflects the effect of translating the US results into pound sterling at the average exchange rates for the relevant periods. The US dollar to pound sterling average rates were 1.49 and 1.97 for the periods ended June 30, 2009 and 2008. Without the impact of the foreign currency translation movements i.e. at a constant exchange rate, claims incurred in the first half of 2008 were £2,208 million, consistent with the claims incurred in the first half of 2009.

The variation in the charge/credit for increases or decreases in policyholder liabilities was primarily attributable to movements in the investment return on the assets backing the variable annuity separate account liabilities.

c) United Kingdom

Overall benefits, claims and the transfer to unallocated surplus moved from a £3,853 million credit in the first half of 2008 to a £2,209 million charge in the first half of 2009. The amounts of the period to period changes attributable to each of the underlying reasons is shown below together with a further analysis of the decrease in policyholder liabilities by type of business:

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Claims incurred	**(4,964)**	(5,203)
(Increase) decrease in policyholder liabilities:		
SAIF	**773**	1,577
PRIL	**(399)**	(196)
Unit-linked and other non-participating business	**(16)**	787
With-profits (excluding SAIF)	**511**	5,941
	869	8,109
Movement in unallocated surplus of with-profits funds	**1,886**	947
Benefits and claims and movement in unallocated surplus	**(2,209)**	3,853

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Claims incurred in the UK operations decreased from £5,203 million in the first half of 2008 to £4,964 million in the first half of 2009. The reduction in claims incurred primarily reflects the combined effect of lower maturities and surrenders for the with-profits fund. The reduction in maturing claims reflects a lower base level of policies.

As has been explained above, there is a direct relationship between policyholder benefits and asset returns on the related pool of assets. As a result of the improvement in the first half of 2009 there has been a corresponding impact on benefit claims and movement in unallocated surplus of with-profits funds in the period, moving from a net credit of £3,853 million in the first half of 2008 to a charge of £2,209 million in the first half of 2009.

SAIF is a ring-fenced fund with no new business written. The decrease in policyholder liabilities in SAIF reflects the underlying decreasing policyholder liabilities as the liabilities run off. The variations from year to year are, however, affected by the market valuation movement of the investments held by SAIF, which are wholly attributable to policyholders.

For PRIL, the increases in policyholder liabilities reflect the effect of altered investment yield reflected in the discount rate applied in the measurement of the liabilities, together with other factors such as changes in premium income and altered assumptions.

For unit-linked business, the variations in the increases and decreases in the policyholder liabilities relating to the unit-linked business were primarily due to the movement in the market value of the unit-linked assets as reflected in the unit value of the unit-linked policies.

The part of the Group where variations in amounts attributed to policyholder liabilities and unallocated surplus is most significant is the UK with-profits business (excluding SAIF).The liabilities for UK with-profits policyholders are determined on an asset-share basis that incorporates the accumulation of investment returns and all other items of income and outgo that are relevant to each policy type. Accordingly, the policyholder liabilities will fluctuate with the investment performance of the fund. Separately, the excess of assets over liabilities of the fund represents the unallocated surplus. This surplus will also fluctuate on a similar basis to the market value movement on the investment assets of the funds. In addition, other items of income and expenditure affect the level of movement in policyholder liabilities (to the extent reflected in asset shares) and unallocated surplus.

Acquisition costs and other operating expenditure

	Six Months Ended June 30,	
	2009	**2008**
	(In £ Millions)	
Asian operations	**(881)**	(631)
US operations	**(673)**	(274)
UK operations	**(711)**	(692)
Unallocated corporate	**(181)**	(166)
Total	**(2,446)**	(1,763)

Total acquisition costs and other operating expenditure of £2,446 million in the first half of 2009 were 39 per cent higher than the £1,763 million incurred in the first half of 2008.

a) Asia

Total Asian acquisition costs and other operating expenditure in the first half of 2009 were £881 million, an increase of £250 million compared to £631 million for the first half of 2008. This increase reflected a rise in acquisition costs incurred, from £330 million in the first half of 2008 to £

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366 million in the first half of 2009, and an increase in operating expenses from £301 million in the first half of 2008 to £515 million in the first half of 2009. This increase in operating expenses in turn principally reflected a £168 million increase in the charge for investment gains relating to external unit holders following the increase in overall returns for the first half of 2009 in the consolidated funds.

b) United States

Acquisition costs and other operating expenditure of £673 million in the first half of 2009 were 146 per cent higher than expenses of £274 million in the first half of 2008. This increase reflected a rise in acquisition costs incurred and a general increase in operating expenses, with the significant difference in exchange rates between that for the first half of 2009 and the comparable period in 2008 contributing to this rise.

c) United Kingdom

Total UK acquisition costs and other operating expenditure in the first half of 2009 were £711 million compared to £692 million in the first half of 2008. The increase of £19 million in the first half of 2009 principally related to an increase in acquisition costs, from £85 million in the first half of 2008 to £188 million in the first half of 2009, and an increase in operating costs incurred, from £352 million in the first half of 2008 to £368 million in the first half of 2009. The increase in operating costs included a £127 million increase in the charge for investment gains relating to funds managed on behalf of third parties which are consolidated but have no recourse to the Group. The increase in operating costs was partially offset by a decrease in external interest payable and investment management expenses from £38 million and £184 million to £16 million and £136 million, respectively, over the same period.

d) Unallocated corporate

Acquisition costs and other operating expenditure in the first half of 2009 was £181 million compared to £166 million in the first half of 2008. The increase of £15 million mainly reflected an increase in shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and share-based payment costs.

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The following section provides further information on certain key areas of interest in the balance sheet.

Balance Sheet

The summary balance sheet for the Group as at June 30, 2009 and December 31, 2008 is presented below:

Summary

	June 30, 2009	December 31, 2008
	(In £ Millions)	
Investments	**179,457**	193,434
Holding company cash and short-term investments (note 1)	**1,252**	1,165
Other	**18,677**	20,943
Total assets	**199,386**	215,542
Less: Liabilities		
Policyholder liabilities	**165,047**	173,977
Unallocated surplus of with-profits funds	**7,061**	8,414
	172,108	182,391
Core structural borrowings of shareholders' financed operations	**2,899**	2,958
Other liabilities including minority interest	**19,659**	25,135
Total liabilities and minority interest	**194,666**	210,484
IFRS basis net assets	**4,720**	5,058
Share capital and premium	**1,966**	1,965
IFRS basis shareholders' reserves	**2,754**	3,093
IFRS basis shareholders' equity (excluding minority interest)	**4,720**	5,058

Note

1 Holding company cash is cash remitted by business units to the Group's holding company with a view to cover the dividend payable to shareholders (after corporate costs), and finance profitable opportunities that become available to the Group. Short-term investments are generally cash held on short-term deposits with credit institutions.

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The following sections provide further detail on certain key line items:

Investments

	June 30, 2009				December 31, 2008
	Participating Funds	Unit-Linked	Shareholder-backed	Total Group	Total Group
	(In £ Millions)				
Debt securities	**41,753**	**6,763**	**40,883**	**89,399**	95,224
Equity	**26,098**	**29,295**	**676**	**56,069**	62,122
Property Investments	**8,507**	**616**	**1,356**	**10,479**	11,992
Commercial mortgage loans	**149**		**4,401**	**4,550**	5,473
Other Loans	**1,632**	**47**	**2,384**	**4,063**	5,018
Deposits	**6,300**	**780**	**1,726**	**8,806**	7,294
Other Investments	**3,917**	**235**	**1,939**	**6,091**	6,311
Total	**88,356**	**37,736**	**53,365**	**179,457**	193,434

Total investments held by the Group at June 30, 2009 were £179.5 billion, of which £88.4 billion were held by participating funds, £37.7 billion by unit-linked funds and £53.4 billion by shareholder-backed operations. Shareholders are not directly exposed to value movements on assets backing participating or unit-linked operations, with sensitivity mainly related to shareholder-backed operations.

Of the £53.4 billion investments related to shareholder-backed operations, £2.8 billion was held by Asia long-term business, £27.4 billion by Jackson and £20.0 billion by the UK long-term business respectively.

The investments held by the shareholder-backed operations are predominantly debt securities, totaling, as of June 30, 2009, £2.0 billion, £20.9 billion and £17.0 billion for Asia, the US and the UK long-term business respectively, of which 70 per cent, 92 per cent and 96 per cent, respectively, were rated either externally or internally, as investment grade. Included within debt securities were Tier 1 and Tier 2 bank holdings of £3.7 billion, of which Tier 1 holdings of UK bank securities were £278 million, with exposure being £nil million, £20 million and £258 million for Asia, the US and the UK long-term business, respectively. Within Tier 2, the Group's exposure to UK banks was £1.0 billion, with exposure being £nil million, £109 million, £798 million and £96 million for Asia, the US, the UK long-term business and other operations, respectively.

In addition £3.2 billion of investments were held by asset management operations, of which £3.0 billion was managed by Prudential Capital, and a further £0.2 billion was in central operations, respectively.

Policyholder liabilities

In order to demonstrate the development of our shareholder-backed insurance business, the following table analyzes the movement in the policyholder liabilities of shareholder-backed business

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between items of a cash nature (premiums received and claims/surrenders paid) and other movements, such as those arising from investment gains and losses and foreign exchange.

	Shareholder-backed business			
	Asia	US	UK	Total
	(In £ Millions)			
At January 1, 2009	12,975	45,361	33,853	**92,189**
Premiums	1,296	3,850	1,823	**6,969**
Surrenders	(291)	(2,244)	(827)	**(3,362)**
Maturities/Deaths	(33)	(404)	(948)	**(1,385)**
Net cash flows	**972**	**1,202**	**48**	**2,222**
Investment related items and other movements	1,396	884	166	**2,446**
Disposal of Taiwan agency business	(3,508)			**(3,508)**
Change in reserving basis in Malaysia	(63)			**(63)**
Foreign exchange translation difference	(1,574)	(5,955)	(1)	**(7,530)**
At June 30, 2009	10,198	41,492	34,066	**85,756**
Add policyholder liabilities of with-profits funds				**79,291**
Total policyholder liabilities				**165,047**

Policyholder liabilities related to shareholder-backed business fell by £6.4 billion from £92.2 billion as of December 31, 2008 to £85.8 billion as of June 30, 2009. The reduction reflected the disposal of the Taiwan agency business (negative impact of £3.5 billion), a £63 million reduction in liabilities following the change in reserving basis in Malaysia and foreign exchange movements of negative £7.5 billion.

However, the Group had positive net cash flows (premiums less surrenders and maturities/deaths) into shareholder-backed-business of £2.2 billion in the six-month period to June 30, 2009. This predominantly reflected strong net inflows in Asia (£1 billion) and the US (£1.2 billion).

Investment related items and other movements were £2.4 billion during the first half of 2009, principally reflecting the growth in the Asian equity markets and investment income credited to policyholder liabilities in the US.

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Liquidity and Capital Resources

Prudential operates a central treasury function, which has overall responsibility for managing the Group's capital funding program as well as its central cash and liquidity positions. Prudential arranges the financing of each of its subsidiaries, primarily by raising external finance either at the Prudential Group holding company level or at the operating company level.

Liquidity Requirements

The Group holding company's principal cash requirements are the payment of dividends to shareholders, the servicing of debt, the payment of group activity expenses and investment in businesses.

In the first half of 2009, the Group holding company paid the 2008 final dividend to shareholders, which amounted to £226 million. The full dividend was £322 million, but this was reduced by £96 million due to shareholders electing to receive additional shares in Prudential rather than cash. The 2007 final dividend paid in the first half of 2008 amounted to £177 million, comprising a full dividend of £304 million less an adjustment of £127 million, due again to shareholders electing to receive shares rather than cash. Share option receipts were £nil million in 2009 (2008: £8 million).

Debt service costs (net of interest received on short-term investments) paid in the first half of 2009 were £92 million, compared to £80 million paid in the first half of 2008.

In the first half of 2009, the Group holding company paid £65 million in respect of corporate activities and received £30 million in respect of relief on taxable losses. In the first half of 2008, the Group holding company paid £86 million in respect of corporate activities and received £87 million in respect of relief on taxable losses.

In the first half of 2009, £106 million of capital was invested in businesses, of which £90 million was invested in Asian operations and £16 million in UK insurance operations. In the first half of 2008, the total invested in businesses was £179 million, of which £137 million was invested in Asian operations and £42 million in UK insurance operations.

In the first half of 2009 there were also exceptional payments of £125 million in connection with the sale of the Taiwan agency business to China Life, comprising of £45 million to purchase a 9.99 per cent stake in China Life and £80 million for transaction related expenditure, including restructuring costs.

Liquidity Sources

The Group holding company's principal sources of cash are dividends, loans and interest received from operating subsidiaries and the proceeds from borrowings.

In the first half of 2009, the Group holding company received cash of £284 million from The Prudential Assurance Company Limited ('PAC'), the Group's main UK operating company, in respect of the statutory profit transfer from the long-term business fund. The Group holding company also received remittances of £111 million from Asia, £44 million from M&G and £42 million from Prudential Capital. In the first half of 2008, the Group holding company received cash of £279 million from PAC in respect of the statutory profit transfer from the long-term business fund and remittances of £148 million, £72 million and £14 million from Asia, M&G and Prudential Capital, respectively.

Borrowings

Core structural borrowings are borrowings which the Group considers to form part of its core capital structure. This excludes operating borrowings that arise in the normal course of the business. Core structural borrowings of shareholder-financed operations were £2,899 million at June 30, 2009, compared with £2,958 million at December 31, 2008. During the first half of 2009, the Company repaid £249 million of maturing senior debt and issued £379 million subordinated debt net of issue costs. The decrease in borrowings reflects these transactions and other adjustments of negative £30 million, offset by exchange translation gains of £219 million. Within the total of core structural borrowings of shareholder-financed operations of £2,899 million, the Group holding company had core structural borrowings of £2,747 million outstanding at June 30, 2009. Of the outstanding borrowings, the next date at which an issue is due to mature is 2021. At June 30, 2009, the Group holding company and finance subsidiaries held cash and short-term investments of £1,252 million, compared with £1,165 million at December 31, 2008.

Accordingly, net core structural borrowings decreased by £146 million in the period, from £1,793 million at December 31, 2008 to £1,647 million at June 30, 2009, reflecting a net cash outflow of £103 million, exchange translation gains of £279 million and other adjustments of negative £30 million.

Credit Facilities

The Group's liquidity position remains very strong, both at the holding and subsidiary company level. The holding company has significant internal sources of liquidity, which management believe are sufficient to meet all of the Group's expected requirements for the foreseeable future without having to make use of external funding. In aggregate the Group has £2.1 billion of undrawn committed facilities, of which, in February 2009, it renewed £1.4 billion of the undrawn syndicated committed banking facility for a further three years The Group also has two £100 million undrawn bilateral committed banking facilities expiring in 2011 and 2012, and an annually renewable £500 million committed securities lending facility. In addition the Group has access to liquidity via the debt capital markets, which was demonstrated recently through the issue of two hybrid instruments, £400 million lower tier 2 debt issued in May 2009 and US $750 million (approximately £455 million) innovative tier 1 debt issued in July 2009.

Prudential's financial strength and credit ratings

On September 22, 2009, Standard & Poor's announced that it had lowered its long-term counterparty credit and insurer financial strength ratings on Prudential Assurance Company (PAC) from AA+ (negative outlook) to AA (negative outlook). At the same time, Standard & Poor's revised its outlook on Prudential's long-term senior debt from A+ (stable outlook) to A+ (negative outlook) and Jackson's financial strength from AA (stable outlook) to AA (negative outlook).

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

Prudential's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1+ by Fitch.

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

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

Consolidated Cash Flows

The discussion that follows is based on the consolidated statement of cash flows prepared under IFRS and presented in Prudential's unaudited condensed consolidated interim financial statements.

Net cash inflows (outflows) in the first half of 2009 were £1,546 million from operating activities, £(458) million from investing activities, and £(203) million from financing activities. During the first half

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of 2008, net cash inflows (outflows) were £172 million from operating activities, £(55) million from investing activities and £(267) million from financing activities.

As at June 30, 2009, the Group held cash and cash equivalents of £6,542 million compared with £5,955 million at December 31, 2008, an increase of £587 million (representing net cash inflows of £885 million outlined above, and the effect of exchange rate changes of £(298) million).

Contingencies and Related Obligations

Details of the main changes to Prudential's contingencies and related obligations that have arisen in the six month period ended June 30, 2009 are set out in Note R to the unaudited condensed consolidated interim financial statements.

Derivative Financial Instruments and Commitments

During the normal course of business Prudential enters into various arrangements in order to increase liquidity and decrease certain risks. These have included a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions are conducted under standardized ISDA (International Swaps and Derivatives Association Inc.) master agreements, and Prudential has collateral agreements between the individual group entities and relevant counterparties in place under each of these market master agreements.

These derivatives are used for efficient portfolio management, to obtain cost effective and efficient exposure to various markets in accordance with Prudential's investment strategies and to manage exposure to interest rate, currency, credit and other business risks.

The UK insurance operations use various currency derivatives in order to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than sterling. In addition, total return swaps and interest rate swaps are held for efficient portfolio management.

As part of the efficient portfolio management of the PAC with-profits fund, the fund may, from time to time, invest in cash-settled forward contracts over Prudential plc shares, which are accounted for consistently with other derivatives. This is in order to avoid a mismatch of the with-profits investments portfolio with the investment benchmarks set for its equity-based investment funds. The contracts will form part of the long-term investments of the with-profits fund. These contracts are subject to a number of limitations for legal and regulatory reasons.

Some of Prudential's products, especially those sold in the United States, have certain features linked to equity indexes. A mismatch between product liabilities and the performance of the underlying assets backing them exposes the group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to match asset performance with liabilities under equity-indexed products.

Jackson and some of the UK operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. Both Jackson and some of the UK operations have purchased some swaptions in order to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets.

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Jackson uses the following types of derivative as follows:

Interest rate swap agreements generally involve the exchange of fixed and floating payments over the life of the agreement without an exchange of the underlying principal amount and are used for hedging purposes;

Spread cap options, with maturities of up to five years, are used as a macro-economic hedge against declining interest rates. Jackson receives quarterly settlements based on the spread between the 2-year and the 10-year constant maturity swap rates in excess of a specified spread;

Put-swaption contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-term interest rate swap at future exercise dates. Jackson purchases and writes put-swaptions for hedging purposes with original maturities of up to 10 years. On a net basis, put-swaptions hedge against significant upward movements in interest rates. Written put-swaptions are entered into in conjunction with associated put-swaptions purchased from the same counterparties ("linked put-swaptions"). Linked put-swaptions have identical notional amounts and strike prices, but have different underlying swap terms;

Equity index futures contracts and equity index options (including call and put options, put spreads, written calls, timer puts and knock-out put options) are used to hedge Jackson's obligations associated with its index linked annuities and guarantees in variable annuity products. These annuities and guarantees contain embedded options which are fair valued for financial reporting purposes;

Credit default swaps, with maturities up to five years, represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. Jackson does not currently sell default protection using credit default swaps or other similar derivative instruments. These contracts allow the Company to sell the protected bonds at par value to the counterparty if a defined "default event" occurs in exchange for periodic payments made by Jackson for the life of the agreement;

Total return swaps, in which Jackson receives equity returns or returns based on reference pools of assets in exchange for short-term floating rate payments based on notional amounts, are held for both hedging and investment purposes; and

Cross-currency swaps, which embody spot and forward currency swaps and, in some cases, interest rate and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated trust instruments supported by funding agreements.

Jackson had unfunded commitments of £285 million and £4 million related to its investments in limited partnerships and commercial mortgage loans respectively at June 30, 2009. These reflect on demand contractual commitments to fund further investments.

Prudential plc and Subsidiaries
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Prudential plc and Subsidiaries

Condensed Consolidated Income Statements

Six Months Ended June 30,

	2009	**2008**
	(In £ Millions, Except Per Share Amounts)	
Earned premiums, net of reinsurance	**9,518**	8,926
Investment return	**3,625**	(9,752)
Other income	**574**	453
Total revenue, net of reinsurance	**13,717**	(373)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	**(10,783)**	1,479
Acquisition costs and other operating expenditure	**(2,446)**	(1,763)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(84)**	(82)
Loss on sale of Taiwan agency business (note G)	**(559)**	
Total charges, net of reinsurance	**(13,872)**	(366)
Loss before tax *(being tax attributable to shareholders' and policyholders' returns)**	**(155)**	(739)
Tax credit attributable to policyholders' returns	**79**	637
Loss before tax attributable to shareholders (note C)	**(76)**	(102)
Tax (charge) credit (note H)	**(103)**	625
Less: tax credit attributable to policyholders' returns	**(79)**	(637)
Tax (charge) credit attributable to shareholders' returns (note H)	**(182)**	(12)
Loss from continuing operations after tax / Loss for the period	**(258)**	(114)
Attributable to:		
Equity holders of the Company	**(254)**	(116)
Minority interests	**(4)**	2
Loss for the period	**(258)**	(114)
Earnings per share (in pence)		
Based on loss for the period attributable to the equity holders of the Company:		
Basic (note I)	**(10.2)p**	(4.7)p
Diluted (note I)	**(10.2)p**	(4.7)p

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

The accompanying notes form an integral part of these interim financial statements.

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Prudential plc and Subsidiaries

Condensed Consolidated Statement Of Comprehensive Income*

Six Months Ended June 30,

	2009	2008
	(In £ Millions)	
Loss for the period	**(258)**	(114)
Other comprehensive income (loss):		
Exchange movements on foreign operations and net investment hedges:		
Exchange movements arising during the period	**(292)**	32
Related tax	**(6)**	14
	(298)	46
Available-for-sale securities:		
Unrealized valuation movements on securities of US insurance operations classified as available-for-sale:		
Unrealized holding gains (losses) arising during the period	**662**	(774)
Add back net losses included in the income statement on disposal and impairment	**146**	97
Total (note M)	**808**	(677)
Related change in amortization of deferred income and acquisition costs	**(235)**	244
Related tax	**(150)**	148
	423	(285)
Other comprehensive income (loss) for the period, net of related tax	**125**	(239)
Total comprehensive loss for the period	**(133)**	(353)
Attributable to:		
Equity holders of the Company	**(129)**	(355)
Minority interests	**(4)**	2
Total comprehensive loss for the period	**(133)**	(353)

* 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.

The accompanying notes form an integral part of these interim financial statements.

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Prudential plc and Subsidiaries

Condensed Consolidated Statement Of Changes In Equity

Six Months Ended June 30, 2009

	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Minority interests	Total equity
				(In £ Millions)				
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

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 at the beginning of the period, January 1, 2009, as explained in Note B.

The accompanying notes form an integral part of these interim financial statements.

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Prudential plc and Subsidiaries

Condensed Consolidated Statement Of Changes In Equity (Continued)

Six Months Ended June 30, 2008

	Share capital	Share premium	Retained earnings	Translation reserve	Available-for-sale securities reserve	Shareholders' equity	Minority interests	Total equity
				(In £ Millions)				
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								