Notes on the IFRS basis results

A Basis of preparation and audit status

These condensed consolidated interim financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or changed IFRS that are already endorsed by the EU or that are applicable or available for early adoption for the next annual financial statements and other policy improvements.

The IFRS basis results for the 2008 and 2007 half years are unaudited. Except for the change of accounting policy explained in notes B and O, the 2007 full year IFRS basis results have been derived from the 2007 statutory accounts. The auditors have reported on the 2007 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was (i) unqualified, (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

B Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2007, except for the change in the accounting policy for pension schemes to reflect the principles of IFRIC 14 'IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (see note O).

C Segment disclosure

	2008 £m Half year	2007 £m Half year	2007 £m Full year
Revenue			
Insurance operations	(799)	16,616	31,555
Asset management	531	682	1,397
Unallocated corporate	31	98	186
Intra-group revenue eliminated on consolidation	(136)	(141)	(268)
Total revenue, net of reinsurance, per income statement	(373)	17,255	32,870
Analysed as:			
Investment return**	(9,752)	8,258	12,225
Other items	9,379	8,997	20,645
	(373)	17,255	32,870
Charges (before income tax attributable to policyholders and unallocated surplus of long-term insurance funds)			
Insurance operations, including post-tax transfers to unallocated surplus of with profit funds	247	(16,076)	(30,533)
Asset management	(416)	(479)	(1,053)
Unallocated corporate	(333)	(201)	(494)
Intra-group charges eliminated on consolidation	136	141	268
Total charges per income statement	(366)	(16,615)	(31,812)
Segment results – revenue less charges (continuing operations)			
Insurance operations	(552)	540	1,022
Asset management	115	203	344
Unallocated corporate	(302)	(103)	(308)
(Loss) profit before tax* *(being tax attributable to shareholders' and policyholders' returns)*	(739)	640	1,058
Tax attributable to policyholders' returns	637	15	5
(Loss) profit before tax attributable to shareholders[note D]	(102)	655	1,063
Tax attributable to shareholders' (loss) profit	(12)	(234)	(354)
(Loss) profit from continuing operations after tax	(114)	421	709
Segment results – discontinued operations (net of tax)			
Banking[note N]	–	241	241
(Loss) profit for the period	(114)	662	950

*This measure is the formal (loss) profit before tax measure under IFRS but is not the result attributable to shareholders.
**Investment return principally comprises
– Interest and dividends;
– Realised and unrealised gains and losses on securities and derivatives classified as fair value through profit and loss under IAS 39; and
– Realised gains and losses, including impairment losses, on securities classified as available-for-sale under IAS 39.

D Supplementary analysis of profit from continuing operations before tax attributable to shareholders

This information is provided as supplementary information under the Group's accounting policies.

Results analysis by business area	2008 £m Half year	2007 £m CER* Half year	2007 £m RER* Half year	2007 £m RER* Full year
Asian operations				
Insurance operations	102	80	76	189
Asset management	29	34	33	72
Development expenses	(3)	(6)	(6)	(15)
Total	128	108	103	246
US operations				
Jackson	232	218	218	444
Broker-dealer and asset management	6	9	9	13
Curian	0	(2)	(2)	(5)
Total	238	225	225	452
UK operations				
UK insurance operations	286	251	251	528
M&G	146	140	140	254
Total	432	391	391	782
Other income and expenditure				
Investment return and other income	72	42	42	86
Interest payable on core structural borrowings	(82)	(88)	(88)	(168)
Corporate expenditure:				
Group Head Office	(79)	(58)	(58)	(129)
Asia Regional Head Office	(17)	(17)	(17)	(38)
Charge for share-based payments for Prudential schemes[note iii]	(4)	(5)	(5)	(11)
Total	(110)	(126)	(126)	(260)
Restructuring costs	(14)	0	0	(19)
Operating profit from continuing operations based on longer-term investment returns	674	598	593	1,201
Short-term fluctuations in investment returns on shareholder-backed business[note i]	(684)	22	24	(137)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes[note ii]	(92)	38	38	(1)
(Loss) profit from continuing operations before tax attributable to shareholders	(102)	658	655	1,063

*The supplementary analysis of profit for half year 2007 at constant exchange rates (CER) has been calculated by applying the average exchange rates for the six months ended 30 June 2008, in order to eliminate the impact from exchange translation when comparing periods. Supplementary analysis of profit disclosure at reported exchange rates (RER) has been calculated by applying the average exchange rates for the relevant period.

Notes

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

	2008 £m Half year	2007 £m RER Half year	2007 £m RER Full year
Insurance operations:			
Asia	(264)	(10)	(71)
US	(181)	60	(18)
UK	(82)	(47)	(47)
Other operations	(157)	21	(1)
Total	(684)	24	(137)

The short-term fluctuations in investment returns reflect the excess or deficit of actual investment returns over longer-term returns included in the operating profit measure on the portfolio of investments held by the Group's shareholder-backed operations. There were no default losses on debt securities in the first half of 2008.

Short-term fluctuations in investment returns for Asian operations of £(264) million for half year 2008 principally arose in Vietnam of £(149) million and Taiwan of £(69) million. For Vietnam, the negative short-term fluctuation reflects the substantial fall in Vietnamese equity and bond markets. The short-term fluctuation in Taiwan principally reflects a 12 per cent equity market fall and a £29 million value reduction for an investment in a CDO fund.

The short-term fluctuations in investment returns included in the supplementary analysis of profit for US insurance operations comprise the following items:

	2008 £m Half year	2007 £m Half year	2007 £m Full year
Credit related losses on debt securities			
Actual credit related losses in the period:			
Bond write downs[note I]	(103)	(7)	(35)
Losses on sales of impaired and deteriorating bonds	(6)	(13)	(51)
Recoveries/reversals	1	1	8
	(108)	(19)	(78)
Less: Risk margin charge included in operating profit based on longer-term investment returns	23	24	48
Short-term fluctuation	(85)	5	(30)
Related change to amortisation of deferred acquisition costs	12	(1)	6
Total short-term fluctuation related to debt securities	(73)	4	(24)
Derivative value movements[†]	(64)	36	(19)
Actual less longer-term return on equity-type securities	(32)	36	42
Other items	(12)	(16)	(17)
Total	(181)	60	(18)

[†] The half year 2008 charge of £(64) million for derivative value movements includes £(42) million for a changed basis of valuation of guarantees for the Guaranteed Minimum Withdrawal Benefit (GMWB) and reinsurance of the Guaranteed Minimum Income Benefit (GMIB) on variable annuity contracts. The change relates to the use of currently observed implied rather than longer-term average historical volatilities. The £(22) million of other derivative value change for half year 2008 and £36 million and £(19) million for half year and full year 2007 comparative results is for derivatives not related to equity products.

The fluctuations for UK insurance operations arise mostly in Prudential Retirement Income Limited, which writes the most significant element of the shareholder-backed annuity business in the UK.

The charge of £157 million for short-term fluctuations of other operations arises from:

	£m
Sale of investment in India mutual fund in May 2008 giving rise to a transfer to operating profit of £47 million for the crystallised gain, and value reduction in the period, prior to sale, of £24 million	(71)
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	(49)
Unrealised value movements, net of hedge effects on Prudential Capital's bond portfolio	(26)
Unrealised value movements on a centrally held investment	(11)
	(157)

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

	2008 £m Half year	2007 £m RER Half year	2007 £m RER Full year
Actual less expected return on scheme assets	(53)	6	4
Experience losses on scheme liabilities	(4)	(4)	(4)
(Losses) gains on changes of assumptions for scheme liabilities	(87)	58	(7)
	(144)	60	(7)
Less: amount attributable to the PAC with-profits fund	52	(22)	6
Total attributable to shareholders	(92)	38	(1)

The amounts shown in the table above relate to the Scottish Amicable, M&G and small Taiwan defined benefit pension schemes. The amounts do not include actuarial gains and losses for the Prudential Staff Pension Scheme (PSPS). Following the Group's adoption of an accounting policy change for pension schemes, PSPS pension surplus is not recognised in the Group's financial statements. The half year and full year 2007 comparatives have been adjusted accordingly. Details of the effect of the accounting policy change are provided in note O.

The loss of £87 million on changes of assumptions comprises the effect of increases in inflation rates which more than offsets the effect of an increase in the risk discount rate.

iii Charge for share-based payments

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

E Tax credit (expense)

The total tax credit of £625 million for half year 2008 (half year 2007: £219 million charge; full year 2007: £349 million charge) comprises £670 million credit (half year 2007: £5 million charge; full year 2007: £28 million charge) UK tax and £45 million charge (half year 2007: £214 million; full year 2007: £321 million) overseas tax. This tax credit comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders. The tax charge attributable to shareholders of £12 million (half year 2007: £234 million; full year 2007: £354 million) comprises £4 million (half year 2007: £76 million; full year 2007: £148 million) UK tax and £8 million (half year 2007: £158 million; full year 2007: £206 million) overseas tax.

The tax credit related to discontinued operations in both half year and full year 2007, which was all attributable to shareholders, amounted to £19 million.

F Supplementary analysis of earnings per share from continuing operations

	2008 Half year	2007 Half year	2007 Full year
Basic earnings per share (in pence)			
From operating profit based on longer-term investment returns after related tax and minority interests	**19.4p**	16.0p	33.3p
Adjustment from post-tax longer-term investment returns to post-tax actual investment returns (after related minority interests)	**(21.4)p**	0.1p	(4.5)p
Adjustment for post-tax shareholders' share of actuarial gains and losses on defined benefit pension schemes	**(2.7)p**	1.1p	0.0p
Based on (loss) profit from continuing operations after tax and minority interests	**(4.7)p**	17.2p	28.8p

G Dividend

An interim dividend of 5.99p per share will be paid on 23 September 2008 to shareholders on the register at the close of business on 15 August 2008. The dividend will absorb an estimated £149 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

H Group balance sheet

The Group balance sheet at 30 June 2008 comprises assets and liabilities for the following categories of business with different levels of shareholders' exposure to asset value movements.

	30 Jun 2008 £m					
		Shareholder backed				
	Participating funds Note ii	Unit-linked and variable annuity unit assets and liabilities Note iii	Other long-term business assets and liabilities Note i	Non-insurance Note i	Intra-group eliminations	Total
Assets						
Intangible assets						
Deferred acquisition costs	18	0	3,212	5	0	3,235
Goodwill and other intangible assets	174	0	184	1,230	0	1,588
Total	192	0	3,396	1,235	0	4,823
Other non-investment and non-cash assets	3,027	492	5,010	3,793	(5,502)	6,820
Investment of long-term business and other operations:						
Investment properties	11,800	897	832	0	0	13,529
Investment accounted for using the equity method	0	0	0	16	0	16
Financial investments:						
Loans	1,714	117	4,400	2,488	0	8,719
Equity securities and portfolio holdings in unit trusts	43,380	31,463	1,009	24	0	75,876
Debt securities	40,261	5,740	36,781	1,024	0	83,806
Other investments	2,969	149	1,018	392	0	4,528
Deposits	4,577	1,037	2,445	135	0	8,194
Total	104,701	39,403	46,485	4,079	0	194,668
Cash and cash equivalents	829	1,063	752	2,200	0	4,844
Total assets	108,749	40,958	55,643	11,307	(5,502)	211,155
Equity and liabilities						
Equity						
Shareholders' equity note J	0	0	5,152	400	0	5,552
Minority interests	40	0	4	54	0	98
Total equity	40	0	5,156	454	0	5,650
Liabilities						
Policyholder liabilities and unallocated surplus of with-profits funds:						
Contract liabilities	90,058	39,665	39,390	0	0	169,113
Unallocated surplus of with-profits funds	12,560	0	0	0	0	12,560
Total insurance liabilities	102,618	39,665	39,390	0	0	181,673
Core structural borrowings of shareholder-financed operations:						
Subordinated debt	0	0	0	1,603	0	1,603
Other	0	0	125	798	0	923
Total note K	0	0	125	2,401	0	2,526
Operational borrowings attributable to shareholder-financed operations note L	0	0	583	2,325	0	2,908
Borrowings attributable to with-profits funds note L	937	0	0	0	0	937
Other non-insurance liabilities	5,154	1,293	10,389	6,127	(5,502)	17,461
Total	6,091	1,293	10,972	8,452	(5,502)	21,306
Total liabilities	108,709	40,958	50,487	10,853	(5,502)	205,505
Total equity and liabilities	108,749	40,958	55,643	11,307	(5,502)	211,155

H Group balance sheet continued

Notes

i Non-linked long-term business and non-insurance business

The sensitivity of the Group's results to investment value movements principally arises in respect of the portfolios of non-linked insurance and non-insurance business.

(a) Non-linked long-term business

The non-linked shareholder business of the Group principally comprises:

UK insurance operations

Prudential Retirement Income Limited (PRIL)

The assets covering PRIL's liabilities are principally debt securities and other investments that are held to match the expected duration and payment characteristics of the policyholder liabilities. These liabilities are valued for IFRS reporting purposes by applying discount rates that reflect the market rates of return attaching to the covering assets.

Except to the extent of any minor asset/liability duration mismatch and exposure to credit risk, the sensitivity of the Group's results to market risk for movements in the carrying value of PRIL's liabilities and covering assets is broadly neutral on a net basis.

The main market risk sensitivity for PRIL arises from interest rate risk on the debt securities which substantially represent IFRS equity. This equity comprises the net assets held within the long-term fund of the Company that cover regulatory basis liabilities that are not recognised for IFRS reporting purposes, for example contingency reserves, and shareholder capital held outside the long-term fund.

The principal items affecting the IFRS results for PRIL are mortality experience and assumptions, and credit risk.

PAC non-profit sub-fund

The PAC non-profit sub-fund, excluding its unit-linked business, principally comprises annuity business previously written by Scottish Amicable Life, credit life and other non-participating business.

The financial assets covering the liabilities for those types of business are subject to market risk. However, for the annuity business the same considerations as described above for PRIL apply. Other liabilities of the PAC non-profit sub-fund are broadly insensitive to market risk.

Jackson (other than variable annuity business segregated in the separate accounts)

The IFRS basis results of Jackson are highly sensitive to market risk on the assets covering liabilities for fixed annuity, term, institutional and other assets and liabilities of variable annuity business not segregated in the separate accounts.

Invested assets covering liabilities for these types of business and related capital comprise principally debt securities classified as available-for-sale. Value movements for these securities are reflected as movements in shareholders' equity. Other invested assets and derivatives are carried at fair value with the value movements reflected in the income statement.

By contrast, the IFRS insurance liabilities for these types of business of Jackson, by the application of grandfathered GAAP under IFRS 4, are measured on US GAAP bases which, with the exception of certain items covered by the equity hedging programme, are generally insensitive to temporary changes in market conditions or the short-term returns on the attaching asset portfolios.

These differences in carrying value of debt securities, other invested assets, derivatives and insurance liabilities give rise to potentially significant volatility in the IFRS income statement and shareholders' equity.

Asian insurance operations

For the non-participating business of the Asian insurance operations, the sensitivity of the IFRS basis results to market risk is primarily reflected through the volatility of asset returns coupled with the fact that the accounting carrying value of liabilities to policyholders are only partially sensitive to changed market conditions.

In addition to these features the overriding factor that affects IFRS basis results for Asian non-participating business is the return on the assets covering the Taiwan whole of life policies. This factor directly affects the actual return in any given reporting period. In addition though, the measurement of the liabilities to policyholders and the carrying value of deferred acquisition costs for this business is dependant upon an assessment of longer-term interest rates.

(b) Other non-insurance

Other non-insurance's balance sheet comprises mainly M&G. In addition, other non-insurance also covers asset management in Asia and US and unallocated corporate activities.

M&G's balance sheet includes loans comprising bridging loan finance assets and structured finance arrangements managed by Prudential Capital.

ii Participating business

For participating business, which in the table above reflects the with-profit funds of the Prudential Assurance Company, and Singapore and Malaysia operations, the Group's principal sensitivity to investment value movements arises through the impact on the shareholders' share of with-profits bonus declarations, which are 'smoothed' to adjust for changes in returns from period to period, and fees earned by the Group's asset management operations on the assets of the participating business funds.

iii Unit-linked and variable annuity business

For unit-linked and variable annuity business, the principal sensitivity to investment value movements is for the effect on investment management fees and derivative elements of guaranteed features of US products, after taking account of the economic hedging programme in place. The table above shows the unit assets and liabilities relating to the unit-linked and variable annuity business. Assets and liabilities such as deferred acquisition costs and insurance liabilities (other than unit liabilities) are included in the column for other long-term business.

iv Consolidated investment funds

In addition, the balance sheet of the Group includes investment funds which are managed on behalf of third parties and which are consolidated under IFRS in recognition of the control arrangements for those funds. As a result, the balance sheet includes assets and liabilities and a corresponding net asset value attributable to external unit-holders in respect of those funds, which are non-recourse to the Group. The Group is not exposed to investment risks on these assets representing the liability to the external parties.

I Jackson's debt securities classified as available-for-sale

i Accounting policy and methodology for determining impairments

Jackson's debt securities are classified as 'available-for-sale' under IAS 39 and carried in the balance sheet at fair value. Unless impaired, fair value movements are recorded as a movement in shareholder reserves direct to equity. Impairments are recorded in the income statement as shown in note D and note (ii) below.

The consideration of evidence of impairment requires management judgement. Among the factors considered is whether the decline in fair value results from the change in quality of the security itself, or from a downward movement in the market as a whole and the likelihood of recovering the carrying value based on the current and short-term prospects of the issuer. Unrealised losses that are considered to be primarily the result of market conditions, such as interest rate movements, unusual market volatility, or industry-related events, and where Jackson 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.

Jackson's impairment review involves several criteria, including economic conditions, credit loss experience, other issuer-specific developments and future cash flows.

An impairment is recorded with the debt security written down to its fair value if, based on detailed cash flow analysis, Jackson assess that there will be a principal shortfall over the life of the security. The impairment loss reflects the difference between the market and book values.

The majority of the impairment losses arising in the first half of 2008 arose on residential mortgage-backed securities (RMBS). The impairment testing for RMBS was determined using a cash flow modelling approach designed to estimate future principal losses on underlying collateral mortgage loans supporting the investments in the structures. Principal loss estimates were based on the current delinquency/foreclosure statistics for the underlying pools. In aggregate, the more severe the current delinquency/foreclosure statistics for an underlying pool, the higher the principal losses projected. Projected underlying losses for each collateral pool are then run through a model of the bond structure to calculate the expected future cash flows of the bond. This cash flow simulation will indicate the extent of estimated future principal losses on securitisation tranches held by Jackson. In the first half of 2008 and more particularly in the latter part of this period, the collateral performance of these RMBS has deteriorated coupled with the deterioration of the market price of these securities.

ii Impairment losses recognised in the income statement

Jackson's portfolio of debt securities is managed proactively with credit analysts closely and regularly monitoring and reporting on the credit quality of its holdings. Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment.

In the first half of 2008, Jackson recorded £103 million (half year 2007: £7 million; full year 2007: £35 million) of impairment losses which comprise losses in respect of:

	2008 Half year
Residential mortgage-backed securities (RMBS)	82
Public fixed income	18
Consolidated Piedmont investment vehicle	3
	103

Of the £103 million, £75 million relates to Alt-A holdings. There were no sub-prime holdings which have been impaired.

iii Sub-prime and Alt-A exposures

At 30 June 2008, Jackson held £217 million in sub-prime exposure and £553 million in Alt-A exposure. The sub-prime exposure, which is primarily fixed rate with first lien collateral, is all investment grade and 96 per cent AAA rated. The Alt-A exposure is 84 per cent AAA rated. With an average FICO score of 610-620, Jackson's sub-prime collateral could be categorised as 'near prime' with a score close to a prime score of 660.

I Jackson's debt securities classified as available-for-sale continued

iv Movements in the unrealised gains and losses of Jackson's available-for-sale securities for the first half of 2008:

	2008 £m 30 Jun	2007 £m Change reflected directly in shareholders' equity	2007 £m 31 Dec
Assets fair valued at below book value			
Book value	13,478		10,730
Unrealised loss	(989)	(550)	(439)
Fair value (as included in balance sheet)	12,489		10,291
Assets fair valued at or above book value			
Book value	5,578		8,041
Unrealised gain	176	(127)	303
Fair value (as included in balance sheet)	5,754		8,344
Total			
Book value	19,056		18,771
Net unrealised loss	(813)	(677)	(136)
Fair value (as included in balance sheet)	18,243		18,635

The net reduction in the value of debt securities classified as available-for-sale of £677 million, as shown in the table above, is included within the statement of changes in equity. This reduction reflects the effect of continued adverse market movements in the first half of 2008. These temporary market value movements do not reflect defaults or impairments.

v Debt securities in an unrealised loss position

a All securities in an unrealised loss position

The following table shows the fair value of the securities in a gross unrealised loss position for various percentages of book value and by maturity of security:

	30 Jun 2008 £m		31 Dec 2007 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Percentage of book value				
Between 90% and 100%	9,856	(393)	9,370	(274)
Between 80% and 90%	1,964	(326)	784	(122)
Below 80%	669	(270)	137	(43)
	12,489	(989)	10,291	(439)

	2008 £m 30 Jun Unrealised loss	2007 £m 31 Dec Unrealised loss
By maturity of security		
Less than 1 year	–	(1)
1 to 5 years	(77)	(54)
5 to 10 years	(338)	(164)
More than 10 years	(136)	(60)
Mortgage-backed securities and other debt securities	(438)	(160)
Total	(989)	(439)

As shown in the table above, £270 million of the £989 million of gross unrealised losses at 30 June 2008 related to securities whose fair value were below 80 per cent of the book value. The age analysis for this £270 million, indicating the length of time for which their fair value was below 80 per cent of the book value, is as follows:

	30 Jun 2008 £m	
	Fair value	Unrealised loss
Less than 3 months	248	(82)
3 months to 6 months	387	(168)
More than 6 months	34	(20)
	669	(270)

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

	30 Jun 2008 £m				31 Dec 2007 £m			
	Not rated	Non-investment grade	Investment grade	Total	Not rated	Non-investment grade	Investment grade	Total
Aged analysis of unrealised losses for the periods indicated								
Less than 6 months	(25)	(16)	(266)	(307)	(7)	(8)	(52)	(67)
6 months to 1 year	(16)	(18)	(102)	(136)	(10)	(21)	(105)	(136)
1 year to 2 years	(14)	(33)	(192)	(239)	(5)	(2)	(16)	(23)
2 years to 3 years	(32)	(9)	(203)	(244)	(24)	(10)	(140)	(174)
More than 3 years	(9)	(7)	(47)	(63)	(7)	(3)	(29)	(39)
	(96)	(83)	(810)	(989)	(53)	(44)	(342)	(439)

b Sub-prime and Alt-A securities

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

	30 Jun 2008 £m		31 Dec 2007 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Fair value of securities as a percentage of book value				
Between 90% and 100%	175	(10)	572	(24)
Between 80% and 90%	386	(66)	132	(22)
Below 80%	165	(75)	28	(10)
	726	(151)	732	(56)

Of the sub-prime and Alt-A securities whose fair value is below 80 per cent of book value at 30 June 2008, £18 million of the £75 million unrealised losses relates to securities that have been in that position for three months or under, £49 million for three to six months and £8 million for six to nine months.

J Shareholders' equity

	2008 £m	2007 £m	2007 £m
	30 Jun	30 Jun	31 Dec
Share capital	124	123	123
Share premium	1,838	1,823	1,828
Reserves	3,590	3,841	4,111
Total	5,552	5,787	6,062

K Net core structural borrowings of shareholder-financed operations

	2008 £m 30 Jun	2007 £m 30 Jun	2007 £m 31 Dec
Core structural borrowings of shareholder-financed operations:			
Holding company	2,401	2,289	2,367
Jackson	125	124	125
Total (per consolidated balance sheet)	2,526	2,413	2,492
Less: Holding company* cash and short-term investments (recorded within the consolidated balance sheet)	(1,498)	(1,546)	(1,456)
Net core structural borrowings of shareholder-financed operations	1,028	867	1,036

*Including central finance subsidiaries.

L Other borrowings

	2008 £m 30 Jun	2007 £m 30 Jun	2007 £m 31 Dec
Operational borrowings attributable to shareholder-financed operations			
Borrowings in respect of short-term fixed income securities programmes	2,321	2,045	2,477
Non-recourse borrowings of US operations	580	544	591
Other borrowings	7	16	13
Total	2,908	2,605	3,081
Borrowings attributable to with-profits funds			
Non-recourse borrowings of venture fund investment subsidiaries	–	1,063	–
Non-recourse borrowings of consolidated investment funds	740	854	789
Subordinated debt of the Scottish Amicable Insurance Fund	100	100	100
Other borrowings (predominantly obligations under finance leases)	97	105	98
Total	937	2,122	987

M Contingencies and related obligations

The main changes to the Company's contingencies and related obligations that have arisen in the six month period ended 30 June 2008 are set out below.

i UK Financial Services Authority's Consultation Paper CP08/11

In June 2008 the FSA published a consultative document which proposes that from 1 November 2008 all future payments for compensation and redress, regardless of when the mis-selling occurred, should be met from shareholders' funds, but exempting payments which form part of a 'guarantee' scheme. It is not clear currently how this proposal will apply to the guarantees covered by the provision of £462 million held in the inherited estate of the Prudential Assurance Company at 30 June 2008.

ii Inherited estate of Prudential Assurance Company

Prudential announced in March 2006 that it had begun a process to determine whether it could achieve greater clarity as to the status of the inherited estate through a reattribution. In June 2008 Prudential announced that it did not believe that it is in the interests of current or future policyholders or shareholders to continue the reattribution process.

N Discontinued operations

Discontinued operations for half year and full year 2007 relate entirely to UK banking operations following the sale on 1 May 2007 of Egg.

The profit from discontinued operations of £241 million comprises an operating loss based on longer-term investment returns for the period of ownership of £68 million, a tax credit on the loss of £19 million and a profit on sale (both before and after tax) of £290 million.

O Adoption of altered policy for pension schemes to reflect the principles of IFRIC 14

i The reason for the change

As mentioned in note B, the Group has adopted an accounting policy change for pension schemes in half year 2008. The change effectively applies the principles of IFRIC 14, which gives guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset thereby providing reliable and more relevant information. The recognition of an asset is restricted to those that are demonstrably recoverable, either by refund or reduction in future contributions. It also addresses when a minimum funding requirement might give rise to a liability. The assessment of recoverability and any additional liability is made by reference to the terms of the Trust Deed of pension schemes and, unless substantively enacted or contractually agreed, with no account taken of potential changes to current funding arrangements.

This accounting policy change has had an effect on the Group's interest in the financial position of the Group's main UK defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The change relates solely to the accounting measurement of the Group's interest in the financial position of PSPS. Adoption of this accounting policy change does not affect the Group's interest in the Group's other defined benefit pension schemes.

Under the terms of the Trust Deed, the Group has no unconditional right of refund to any surplus in PSPS. Also, the Group has no ability under the guidance in IFRIC 14 to anticipate a reduction in the level of future contributions for ongoing services from those currently being paid. In addition, the Group currently has a five-year deficit funding arrangement in place as agreed with the Trustees of the PSPS following the last triennial valuation of PSPS as at 5 April 2005.

The assets and liabilities of PSPS are unaffected by the impact of the change in accounting policy. PSPS is managed on an economic basis for the longer-term benefit of its current and deferred pensioners and active members. The surplus in PSPS is available to absorb future adverse asset value movements and, if required, strengthening in mortality assumptions. The fluctuating nature of the surplus is demonstrated by the reduction in the underlying gross surplus from £528 million at 31 December 2007 to £315 million at 30 June 2008.

ii The summary effect of the change

In respect of the position at 30 June 2008, the Group has not recognised the underlying PSPS pension surplus of £315 million (£265 million net of deferred tax), reflecting the difference between the market value of the scheme assets and the discounted value of the liabilities, which would have otherwise been recognised as an asset on its balance sheet under the previous policy. In addition, the Group has recognised a liability for deficit funding to 5 April 2010 of £80 million (£67 million net of deferred tax) in respect of PSPS. Of these, the amounts attributable to shareholders are £97 million (£69 million net of deferred tax) for the surplus not recognised as an asset and £25 million (£18 million net of deferred tax) for the additional liability for deficit funding. In total the impact on shareholders' equity at 30 June 2008 is a reduction of £87 million as shown in note (iii) below.

The half year and full year 2007 comparative figures in these condensed consolidated financial statements have been adjusted accordingly for this change in accounting policy.

iii The effect of the change on the income statement, earnings per share and balance sheet

	Increase (decrease) in profit		
	2008 £m	2007 £m	
	Half year	Half year	Full year
	Adjustments incorporated in the results	Adjustments made to the previously published results	
Summary Consolidated Income Statement			
Investment return	(20)	8	4
Benefits and claims and movement in unallocated surplus of with-profits funds	(137)	138	205
Other operating expenditure	245	(232)	(336)
Profit (loss) before tax *(being tax attributable to shareholders' and the policyholders' returns)*	88	(86)	(127)
Tax attributable to policyholders' returns	(16)	13	24
Profit (loss) before tax attributable to shareholders	72	(73)	(103)
Tax attributable to shareholders' (loss) profit	(20)	19	28
Profit (loss) from continuing operations after tax/Profit (loss) for the period	52	(54)	(75)

Notes on the IFRS basis results
continued

iii The effect of the change on the income statement, earnings per share and balance sheet continued

	Increase (decrease) in earnings per share		
	2008 £m	2007 (p)	
	Half year	Half year	Full year
	Adjustments incorporated in the results	Adjustments made to the previously published results	
Earnings per share			
Basic and diluted based on profit (loss) from continuing operations attributable to equity holders of the Company	2.1p	(2.2)p	(3.1)p

	Increase (decrease) in shareholders' equity		
	2008 £m	2007 £m	
	Half year	Half year	Full year
	Adjustments incorporated in the results	Adjustments made to the previously published results	
Summary consolidated balance sheet			
Deferred tax assets	13	24	26
Other debtors	(185)	(255)	(356)
Policyholder liabilities – contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	(130)	(143)	(172)
Unallocated surplus of with-profits funds	245	332	392
Deferred tax liabilities	50	51	73
Provisions	(80)	(127)	(102)
Shareholders' equity	(87)	(118)	(139)

iv Effect on the Group's supplementary analysis of profit and movements in shareholders' equity

	Half year 2008 £m			Half year 2007 £m			Full year 2007 £m		
	Previous basis	Effect of change	Revised basis	As previously published	Effect of change	After change	As previously published	Effect of change	After change
Operating profit based on longer-term investment returns	692	(18)	674	601	(8)	593	1,213	(12)	1,201
Short-term fluctuations in investment returns on shareholder-backed business	(684)		(684)	24		24	(137)		(137)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	(182)	90	(92)	103	(65)	38	90	(91)	(1)
(Loss) profit before tax	(174)	72	(102)	728	(73)	655	1,166	(103)	1,063
Tax	8	(20)	(12)	(253)	19	(234)	(382)	28	(354)
(Loss) profit after tax	(166)	52	(114)	475	(54)	421	784	(75)	709
Profit from discontinued operations	–		–	241		241	241		241
Less: Minority interests	(2)		(2)	(1)		(1)	(3)		(3)
(Loss) profit for the period	(168)	52	(116)	715	(54)	661	1,022	(75)	947
Other movements in reserves	(394)		(394)	(298)		(298)	(309)		(309)
Shareholders' equity at the beginning of the period	6,201	(139)	6,062	5,488	(64)	5,424	5,488	(64)	5,424
Shareholders' equity at the end of the period	5,639	(87)	5,552	5,905	(118)	5,787	6,201	(139)	6,062

P Related party disclosures

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2007.

There were no transactions with related parties during the six months ended 30 June 2008 which have had a material effect on the financial position or results of the Group.