

H: Other information on balance sheet items

H1: Intangible assets attributable to shareholders

a Goodwill

	2008 £m	2007 £m
Cost		
At 1 January and 31 December	1,461	1,461
Aggregate impairment		
At 1 January and 31 December	(120)	(120)
Net book amount at 31 December	1,341	1,341

Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis. An allocation to CGUs of the Group's goodwill attributable to shareholders is shown below:

	2008 £m	2007 £m
M&G	1,153	1,153
Other	188	188
	1,341	1,341

'Other' represents goodwill amounts allocated across CGUs in Asia and US operations. These goodwill amounts are not individually material.

Assessment of whether goodwill may be impaired

With the exception of M&G, the goodwill attributable to shareholders in the balance sheet mainly relates to acquired life businesses. The Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of acquired life business with the value of the business as determined using the EEV methodology, as described in note D1. Any excess of IFRS over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS balance sheet may be impaired.

Goodwill is tested for impairment by comparing the CGUs carrying amount, excluding any goodwill, with its recoverable amount.

M&G

The recoverable amount for the M&G CGU has been determined by calculating its value in use. This has been calculated by aggregating the present value of future cash flows expected to be derived from the component businesses of M&G (based upon management projections).

The discounted cash flow valuation has been based on a five-year plan prepared by M&G, and approved by management, and cash flow projections for later years.

The value in use is particularly sensitive to a number of key assumptions as follows:

- i The set of economic, market and business assumptions used to derive the five-year plan. The direct and secondary effects of recent developments, e.g. the fall in global equity markets, are considered in arriving at the expectations for the financial projections for the plan.
- ii The assumed growth rate on forecast cash flows beyond the terminal year of the budget. A growth rate of 2.5 per cent has been used to extrapolate beyond the plan period.
- iii The risk discount rate. Differing discount rates have been applied in accordance with the nature of the individual component businesses. For retail and institutional business a risk discount rate of 12 per cent has been applied to post-tax cash flows. This represents an average implied discount rate for comparable UK listed asset managers calculated by reference to risk-free rates, equity risk premiums of five per cent and an average 'beta' factor for relative market risk of comparable UK listed asset managers. A similar approach has been applied for the other component businesses of M&G.
- iv That asset management contracts continue on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the carrying amount of M&G to exceed its recoverable amount.

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H1: Intangible assets attributable to shareholders continued

Japanese life company

The aggregate goodwill impairment of £120 million at 31 December 2008 and 2007 relates to the goodwill held in relation to the Japanese life operation which was impaired in 2005.

b Deferred acquisition costs and other intangible assets

Deferred acquisition costs and other intangible assets in the Group consolidated balance sheet attributable to shareholders consist of:

	2008 £m	2007 £m
Deferred acquisition costs (DAC) related to insurance contracts as classified under IFRS 4	5,097	2,644
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	108	113
	5,205	2,757
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4	64	59
Present value of future profits of acquired investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	1	4
Distribution rights	79	16
	144	79
Total of deferred acquisition costs and other intangible assets	5,349	2,836
Arising in:		
UK insurance operations	134	157
US insurance operations	3,962	1,928
Asian insurance operations	1,247	745
Asset management operations	6	6
	5,349	2,836

The movement in the year comprises:

	2008 £m	2007 £m
Balance at 1 January	2,836	2,497
Additions	959	717
Amortisation to income statement	(551)	(424)
Exchange differences	1,035	(42)
Change in shadow DAC (note D3(i))	1,070	88
Balance at 31 December	5,349	2,836

Deferred acquisition costs related to insurance contracts attributable to shareholders

The movement in deferred acquisition costs relating to insurance contracts attributable to shareholders is as follows:

	2008 £m	2007 £m
Deferred acquisition costs at 1 January	2,644	2,315
Additions	887	694
Amortisation	(520)	(410)
Exchange differences	1,016	(44)
Change in shadow DAC	1,070	89
Deferred acquisition costs at 31 December	5,097	2,644

Deferred acquisition costs related to investment management contracts attributable to shareholders

Incremental costs associated with the origination of investment management contracts written by the Group's insurance and asset management businesses are capitalised and amortised as the related revenue is recognised. Deferred acquisition costs related to investment management contracts are all internally generated.

Amortisation of this intangible asset is included in the 'acquisition costs and other operating expenditure' line in the income statement.

	2008 £m	2007 £m
At 1 January		
Gross amount	136	130
Accumulated amortisation	(23)	(20)
Net book amount	113	110
Additions (through internal development)	12	7
Amortisation	(17)	(3)
Other charges	–	(1)
At 31 December	108	113
Comprising:		
Gross amount	148	136
Accumulated amortisation	(40)	(23)
Net book amount	108	113

Present value of acquired in-force business of long-term business contracts attributable to shareholders

Prior to the adoption of IFRS 4, the present value of acquired in-force business (PVAIF) was accounted for under UK GAAP.

On 1 January 2005, following the adoption of IFRS 4, PVAIF relating to investment contracts without discretionary participation features, which was previously included within long-term business, is removed and replaced by an asset representing the present value of the future profits of the asset management component of these contracts, where applicable. These contracts are accounted for under the provisions of IAS 18. The remainder of the PVAIF balance relates to insurance contracts and is accounted for under UK GAAP as permitted by IFRS 4.

The present value of future profits of acquired asset management contracts relates to unit-linked contracts acquired as part of the M&G acquisition in 1999.

Amortisation is charged to the 'acquisition costs and other operating expenditure' line in the income statement over the period of provision of asset management services as those profits emerge.

	2008 £m		2007 £m	
	Insurance contracts	Investment management	Insurance contracts	Investment management
At 1 January				
Cost	161	12	220	12
Accumulated amortisation	(102)	(8)	(154)	(6)
Net book amount	59	4	66	6
Exchange differences	14	–	2	–
Amortisation charge	(9)	(3)	(9)	(2)
At 31 December	64	1	59	4
Comprising:				
Cost	184	12	161	12
Accumulated amortisation	(120)	(11)	(102)	(8)
Net book amount	64	1	59	4

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H1: Intangible assets attributable to shareholders continued

Distribution rights attributable to the Asian insurance operations

Distribution rights relate to facilitation fees paid in respect of the bancassurance partnership arrangements in Asia for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised over the term of the distribution contracts.

	2008 £m	2007 £m
At 1 January		
Gross amount	16	–
Accumulated amortisation	0	–
	16	–
Additions		
Amortisation charge	62	16
Exchange differences	(4)	–
	5	–
At 31 December	79	16
Comprising:		
Gross amount	84	16
Accumulated amortisation	(5)	–
	79	16

H2: Intangible assets attributable to with-profits funds

a Goodwill in respect of acquired investment subsidiaries for venture fund and other investment purposes

	2008 £m
Goodwill	
Carrying value at 1 January 2008	192
Amortisation charge	–
Impairment	(18)
At 31 December 2008	174

All the goodwill relates to the UK and the insurance operations segments.

Following the sale by the Group of PPM Capital in November 2007, the only venture fund investment consolidated by the Group relates to an investment by PAC with-profits fund managed by M&G. The goodwill shown in the table above relates to this venture fund investment. Goodwill is tested for impairment for this investment by comparing the investment's carrying value with its recoverable amount. The recoverable amount of the investment was determined by calculating its fair value less costs to sell. At 31 December 2008, following the impairment testing carried out, £18 million of the goodwill was deemed to be impaired and written off accordingly.

The impairment charge of £18 million is recorded under 'acquisition costs and other operating expenditure' but is also taken account of in determining the charge/credit in the income statement for the transfer to the liability for unallocated surplus of with-profits funds.

b Deferred acquisition costs and other intangible assets

Other intangible assets in the Group consolidated balance sheet attributable to with-profit funds consist of:

	2008 £m	2007 £m
Deferred acquisition costs related to insurance contracts attributable to the PAC with-profit fund	13	19
Distribution rights attributable to with-profit funds of the Asian insurance operations	113	–
	126	19

Deferred acquisition costs related to insurance contracts attributable to the PAC with-profit fund

The movement in deferred acquisition costs relating to insurance contracts attributable to the PAC with-profit fund is as follows:

	2008 £m	2007 £m
At 1 January	19	31
Additions	–	1
Amortisation charge	(6)	(13)
At 31 December	13	19

The above costs relate to non-participating business written by the PAC with-profits sub-fund.

No deferred acquisition costs are established for the participating business.

Distribution rights attributable to with-profit funds of the Asian insurance operations

Distribution rights relate to facilitation fees paid in relation to the bancassurance partnership arrangements in Asia for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised over the term of the distribution contracts.

	2008 £m
Gross amount	–
Accumulated amortisation	–
	–
Additions	115
Amortisation charge	(2)
Exchange differences	–
At 31 December	113
Comprising:	
Gross amount	115
Accumulated amortisation	(2)
	113

H3: Reinsurers' share of insurance contract liabilities

	2008 £m	2007 £m
Insurance contract liabilities	1,176	724
Claims outstanding	64	59
	1,240	783

The movement on reinsurers' share of insurance contract liabilities is as follows:

	2008 £m	2007 £m
At 1 January	724	878
Movement in the year	243	(147)
Foreign exchange translation differences	209	(7)
At 31 December	1,176	724

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H: Other information on balance sheet items

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H4: Tax assets and liabilities

Assets

Of the £657 million (2007: £285 million) current tax recoverable, the majority is expected to be recovered in one year or less.

Deferred tax asset

	2008 £m	2007 £m
Unrealised losses on investments	1,267	129
Balances relating to investment and insurance contracts	12	2
Short-term timing differences	1,282	770
Capital allowances	16	20
Unused deferred tax losses	309	30
Total	2,886	951

The deferred tax asset at 31 December 2008 and 2007 arises in the following parts of the Group.

	2008 £m	2007 £m
UK insurance operations:		
SAIF	7	1
PAC with-profits fund (including PAL)	272	93
Other	234	11
US insurance operations	1,969	657
Asian insurance operations	101	73
Other operations	303	116
	2,886	951

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The significant increases in 2008 reflect the incidence of unrealised losses on the fixed income securities of US insurance operations, for which there is the intent and ability to hold for the longer term. In addition, deferred tax balances to UK shareholder-backed insurance business has increased reflecting losses carried forward on the tax basis which reflects the regulatory basis.

The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2008 results and balance sheet position at 31 December 2008, the possible tax benefit of approximately £211 million (2007: £280 million), which may arise from capital losses valued at approximately £1 billion (2007: £1.4 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £678 million (2007: £112 million), which may arise from tax losses and other potential temporary differences totalling £2.2 billion (2007: £350 million) is sufficiently uncertain that it has not been recognised. Forecasts as to when the tax losses and other temporary differences are likely to be utilised indicate that they may not be utilised in the short term.

Liabilities

Of the £842 million (2007: £1,237 million) current tax liability, it is not practicable to estimate how much is expected to be settled in one year or less due to the uncertainty over when outstanding issues will be agreed with HM Revenue & Customs.

Deferred tax liability

	2008 £m	2007 £m
Unrealised gains on investments	765	2,098
Balances relating to investment and insurance contracts	968	599
Short-term timing differences	1,490	693
Capital allowances	6	12
	3,229	3,402

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

Discounting

Deferred tax asset and liability balances have not been discounted.

H5: Accrued investment income and other debtors

	2008 £m	2007 £m
Accrued investment income		
Interest receivable	1,775	1,434
Other	738	589
Total	2,513	2,023
Other debtors		
Premiums receivable:		
From policyholders	194	154
From intermediaries	17	13
From reinsurers	253	104
Other	768	638
Total	1,232	909
Total accrued investment income and other debtors	3,745	2,932

Of the £3,745 million (2007: £2,932 million) of accrued investment income and other debtors, £114 million (2007: £64 million) is expected to be settled after one year or more.

Notes on the Group financial statements

H: Other information on balance sheet items

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H6: Property, plant and equipment

Property, plant and equipment comprise Group occupied properties, development property and tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

	Group occupied property £m	Development property £m	Tangible assets £m	Continuing operations £m	Discontinued operations £m	Total £m
At 1 January 2007						
Cost	225	479	917	1,621	226	1,847
Accumulated depreciation	(33)	–	(518)	(551)	(163)	(714)
Net book amount	192	479	399	1,070	63	1,133
Year ended 31 December 2007						
Opening net book amount	192	479	399	1,070	63	1,133
Exchange differences	2	–	1	3	–	3
Depreciation charge	(48)	–	(50)	(98)	(9)	(107)
Additions	71	48	109	228	3	231
Arising on acquisition of subsidiaries	5	–	33	38	–	38
Disposal of subsidiaries	–	–	–	–	(57)	(57)
Deconsolidated venture fund investments ¹⁶	(69)	–	(261)	(330)	–	(330)
Disposals	(2)	–	(25)	(27)	–	(27)
Reclassification from held for investment	–	120	–	120	–	120
Reclassification from held for sale	–	8	–	8	–	8
Closing net book amount	151	655	206	1,012	–	1,012
At 1 January 2008						
Cost	172	655	612	1,439	–	1,439
Accumulated depreciation	(21)	–	(406)	(427)	–	(427)
Net book amount	151	655	206	1,012	–	1,012
Year ended 31 December 2008						
Opening net book amount	151	655	206	1,012	–	1,012
Exchange differences	45	–	40	85	–	85
Depreciation charge	(3)	–	(67)	(70)	–	(70)
Additions	3	152	85	240	–	240
Disposals	(1)	–	(23)	(24)	–	(24)
Reclassification from (to) held for investment	68	(676)	–	(608)	–	(608)
Closing net book amount	263	131	241	635	–	635
At 31 December 2008						
Cost	292	131	717	1,140	–	1,140
Accumulated depreciation	(29)	–	(476)	(505)	–	(505)
Net book amount	263	131	241	635	–	635

All additions arising on acquisition of subsidiaries in 2007 related to acquisitions of venture investment subsidiaries of the PAC with-profits fund.

Capital expenditure: property, plant and equipment by primary segment

	2008 £m	2007 £m
Insurance operations	212	206
Asset management	13	11
Unallocated corporate	16	11
Continuing operations	241	228
Discontinued banking operations	–	3
Total	241	231

Capital expenditure: property, plant and equipment by secondary segment

	2008 £m	2007 £m
UK	173	145
US	20	33
Asia	48	50
Continuing operations	241	228
Discontinued banking operations	–	3
Total	241	231

H7: Investment properties

Investment properties principally relate to the PAC with-profits fund and are carried at fair value. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	2008 £m	2007 £m
At 1 January	13,688	14,491
Additions:		
Resulting from acquisitions	1,414	1,707
Resulting from expenditure capitalised	218	128
Resulting from acquisitions through business combinations	463	–
Disposals	(1,010)	(1,378)
Net loss from fair value adjustments	(3,784)	(1,128)
Net foreign exchange differences	395	14
Transfers to held for sale assets	–	(25)
Transfers from (to) development properties	676	(121)
Transfers to owner occupied properties	(68)	–
At 31 December	11,992	13,688

The income statement includes the following items in respect of investment properties:

	2008 £m	2007 £m
Rental income from investment properties	726	670
Direct operating expenses (including repairs and maintenance expenses) arising from investment properties:		
That generated rental income during the year	109	117
That did not generate rental income during the year	1	–
Total direct operating expenses	110	117

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H7: Investment properties continued

Investment properties of £3,559 million (2007: £3,665 million) are held under finance leases. A reconciliation between the total of future minimum lease payments at the balance sheet date, and their present value is shown below:

	2008 £m	2007 £m
Future minimum lease payments at 31 December	963	979
Future finance charges on finance leases	(863)	(877)
Present value of minimum lease payments	100	102
Future minimum lease payments are due as follows:		
Less than 1 year	5	5
1 to 5 years	22	22
Over 5 years	936	952
Total	963	979
The present values of these minimum lease payments are:		
Less than 1 year	5	5
1 to 5 years	22	22
Over 5 years	73	75
Total	100	102

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future value of a factor that changes other than with the passage of time. Contingent rent recognised as an expense in 2008 amounted to £nil (2007: £14 million). Contingent rents recognised as income in the year amounted to £nil (2007: £26 million).

The Group's policy is to rent investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases are receivable in the following periods:

	2008 £m	2007 £m
Less than 1 year	742	679
1 to 5 years	2,599	2,464
Over 5 years	9,106	8,266
Total	12,447	11,409

The total minimum future rentals to be received on non-cancellable sub-leases for land and buildings at 31 December 2008 are £3,730 million (2007: £2,746 million).

H8: Investments in associates and joint ventures

Investments in associates

The Group had four associates at 31 December 2008 (2007: four) that are accounted for using the equity method. The Group's associates are a 30 per cent interest in The Nam Khang, a Vietnamese property developer, a 30 per cent interest in Apollo Education and Training Organisation Vietnam, a 25 per cent interest in OYO Developments Limited, and a 26.8 per cent interest in IFonline Group Limited (IFonline).

The Group also has investments in associates which meet the IAS 28 criteria for measurement at fair value through profit and loss in accordance with IAS 39.

Associates accounted for using the equity method

Equity accounting is applied to IFonline based on its reporting period of the year to 30 November and is adjusted for material changes up to 31 December. Accordingly, the information is deemed to cover the same period as that of the Group.

A summary of the movements in investments in associates accounted for using the equity method in 2008 and 2007 is set out below:

	Share of capital £m	Share of reserves £m	Share of net assets £m	Goodwill £m	Total carrying value £m
Balance at 1 January 2007	4	(5)	(1)	7	6
Acquisitions	5	–	5	1	6
Share of profit for the year after tax	–	–	–	–	–
Balance at 31 December 2007	9	(5)	4	8	12
Impairment of goodwill	–	–	–	(6)	(6)
Exchange translation and other movements	3	1	4	–	4
Share of loss for the year after tax	–	–	–	–	–
Balance at 31 December 2008	12	(4)	8	2	10

There have been no changes recognised directly in the equity of associates that would also be recognised directly in equity by the Group.

The Group's share of the assets, liabilities, revenues and profit and loss of associates accounted for using the equity method at 31 December 2008 and 2007 is as follows:

	2008 £m	2007 £m
Financial position		
Total assets (excluding goodwill)	12	7
Total liabilities	(4)	(3)
Net assets	8	4
Results of operations		
Revenue	3	5
Profit in the year	–	–

Associates carried at fair value through profit and loss

The Group's associates that are carried at fair value through profit and loss comprise investments in OEICs, unit trusts, funds holding collateralised debt obligations, property unit trusts, and venture capital investments of the PAC with-profits fund where the Group has significant influence. These investments are incorporated both in the UK and overseas, and some have year ends which are non-coterminous with that of the Group. In these instances, the investments are recorded at fair value at 31 December 2008 based on valuations or pricing information at that specific date. The aggregate fair value of associates carried at fair value through profit and loss where there are published price quotations is approximately £4 billion (2007: £2 billion) at 31 December 2008.

The aggregate assets of these associates are approximately £8 billion (2007: £9 billion). Aggregate liabilities, excluding liabilities to unit holders and shareholders for unit trusts and OEICs, are approximately £2 billion (2007: £2 billion). Fund revenues, with revenue arising in unit trusts and OEICs deemed to constitute the investment return for these vehicles, were approximately £0.8 billion (2007: £0.5 billion) and net loss in the year, excluding unit trusts and OEICs where all investment returns accrue to unit holders or shareholders respectively, was approximately £0.3 billion (2007: profit of £0.2 billion).

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H8: Investments in associates and joint ventures continued

Investments in joint ventures

Joint ventures represent activities over which the Group exercises joint control through contractual agreement with one or more parties. The Group's significant joint ventures, which are accounted for using proportionate consolidation, comprise various joint ventures relating to property investments where the Group has a 50 per cent interest as well as the following interests:

Investment	% held	Principal activity	Country
ICICI Prudential Life Insurance Company Limited	26	Life assurance	India
BOCI – Prudential Asset Management Limited	36	Pensions	China
PruHealth	50	Private medical insurance	UK
CITIC – Prudential Life Insurance Company Limited	50	Life assurance	China
CITIC Prudential Fund Management Company Limited	49	Asset management	China
Prudential ICICI Asset Management Company Limited	49	Asset management	India
Prudential BSN Takaful Berhad	49	General and life insurance	Malaysia

In August 2007, the Group increased its stake in CITIC Prudential Fund Management Company Limited from 33 per cent to 49 per cent.

On 29 September 2007, following expiry of the previous management agreement, a revised arrangement was put in place in respect of CITIC – Prudential Life Insurance Company Limited following which the Group's investment has been accounted for as a joint venture. Prior to the change in management agreement CITIC – Prudential Life Insurance Company Limited was accounted for as a subsidiary undertaking. Whilst the management agreement has been revised there has been no change in the Group's level of holding.

The investments noted in the table above have the same accounting year end as the Group, except for ICICI Prudential Life Insurance Company Limited and Prudential ICICI Asset Management Company Limited. Although these investments have reporting periods ending 31 March, 12 months of financial information up to 31 December is recorded. Accordingly, the information is deemed to cover the same period as that of the Group.

The summarised financial data for the Group's share of investments in joint ventures is as follows:

	2008 £m	2007 £m
Financial position		
Current assets	250	1,277
Non-current assets	1,212	173
Total assets	1,462	1,450
Current liabilities	(159)	(115)
Non-current liabilities	(1,063)	(1,121)
Total liabilities	(1,222)	(1,236)
Net equity	240	214
Results of operations		
Revenues	656	500
Expenses	(649)	(546)
Net profit (loss)	7	(46)

There are several minor service agreements in place between the joint ventures and the Group. During 2008, the aggregate amount of the transactions was £15.9 million (2007: £5.4 million) and the balance outstanding as at 31 December 2008 was £22.5 million (2007: £4.7 million).

The joint ventures have no significant contingent liabilities to which the Group is exposed nor does the Group have any significant contingent liabilities in relation to its interest in the joint ventures.

H9: Assets held for sale

Assets held for sale in 2007 of £30 million comprised investment property of the PAC with-profits fund.

Investment properties are classified as held for sale when contracts have been exchanged but the sale has not been completed at the period end. There were no assets held for sale at 31 December 2008.

Gains on disposal of held for sale assets are recorded in 'investment income' within the income statement.

H10: Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2008 £m	2007 £m
Cash	5,362	4,528
Cash equivalents	593	423
Total cash and cash equivalents	5,955	4,951

Cash and cash equivalents held centrally are considered to be available for general use by the Group. These funds amount to £165 million and £394 million at 31 December 2008 and 2007, respectively. The remaining funds are considered not to be available for general use by the Group, and include funds held for the benefit of policyholders.

H11: Shareholders' equity: Share capital, share premium and reserves

	2008 £m	2007 £m
Share capital and share premium		
Share capital	125	123
Share premium	1,840	1,828
Reserves		
Retained earnings	3,604	4,301
Translation reserve	638	(112)
Available-for-sale reserve	(1,149)	(78)
Total shareholders' equity	5,058	6,062

The authorised share capital of the Company is £220 million (2007: £220 million) (divided into 4,000,000,000 (2007: 4,000,000,000) ordinary shares of 5 pence each and 2,000,000,000 sterling preference shares of 1 pence each) and US\$20 million (divided into 2,000,000,000 US dollar preference shares of 1 cent each) and Euros 20 million (divided into 2,000,000,000 Euro preference shares of 1 cent each). None of the preference shares have been issued. A summary of the ordinary shares in issue is set out below:

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H: Other information on balance sheet items

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H11: Shareholders' equity: share capital, share premium and reserves continued

Share capital and share premium

	2007		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At the beginning of the year	2,444,312,425	122	1,822
Shares issued under share option schemes	803,818	–	6
Shares issued in lieu of cash dividends	24,900,997	1	175
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	–	(175)
At end of the year	2,470,017,240	123	1,828
	2008		
Issued shares of 5p each fully paid:			
At the beginning of the year	2,470,017,240	123	1,828
Shares issued under share option schemes	2,307,469	–	12
Shares issued in lieu of cash dividends	24,622,979	2	156
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	–	–	(156)
At end of the year	2,496,947,688	125	1,840

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 31 December 2008, there were options outstanding under Save As You Earn schemes to subscribe for 6,825,343 (2007: 9,017,442) shares at prices ranging from 266 pence to 617 pence (2007: 266 pence to 695 pence) and exercisable by the year 2015 (2014). In addition, there are 967,652 (2007: 2,037,220) conditional options outstanding under the RSP and 4,906,234 (2007: 3,485,617) under the GPSP exercisable at nil cost within a 10-year period.

The cost of own shares of £75 million as at 31 December 2008 (2007: £60 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 31 December 2008, 6.4 million (2007: 6.6 million) Prudential plc shares with a market value of £27 million (2007: £47 million) were held in such trusts. Of this total, 6.0 million (2007: 5.1 million) shares were held in trusts under employee incentive plans. In 2008, the Company purchased 5.4 million (2007: 1.2 million) shares in respect of employee incentive plans at a cost of £27 million (2007: £9 million). The maximum number of shares held in the year was 6.6 million which was at the beginning of the year.

Of the total shares held in trust, 0.4 million (2007: 1.5 million) shares were held by a qualifying employee share ownership trust. These shares are expected to be fully distributed in the future on maturity of savings-related share option schemes.

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Certain of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2008 was 9.2 million (2007: 4.1 million) and the cost of acquiring these shares of £47 million (2007: £22 million) is included in the cost of own shares. The market value of these shares as at 31 December 2008 was £37 million (2007: £29 million).

Reserves

The translation reserve represents cumulative foreign exchange translation differences taken directly to equity in accordance with IFRS, net of related tax. In accordance with IFRS 1, cumulative translation differences are deemed to be zero at 1 January 2004, the date of transition to IFRS.

The available-for-sale reserve represents gains or losses arising from changes in the fair value of available-for-sale securities of Jackson, net of the related change in amortisation of deferred income and acquisition costs and of the related tax.

H12: Insurance contract liabilities and unallocated surplus of with-profits funds

Movement in year

	Insurance contract liabilities £m	Unallocated surplus of with-profits funds £m
At 1 January 2007	123,339	13,425
Income and expense included in the income statement	9,604	541
Foreign exchange translation differences	(167)	(7)
At 31 December 2007	132,776	13,959
At 1 January 2008	132,776	13,959
Income and expense included in the income statement	(12,760)	(5,815)
Foreign exchange translation differences	16,014	270
At 31 December 2008	136,030	8,414

Note B6 provides further analysis of the movement in the year of the Group's policyholder liabilities and unallocated surplus of the with-profits funds.

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H13: Borrowings

Core structural borrowings of shareholder-financed operations

	Innovative Tier 1*	Lower Tier 2*	Senior†	2008 £m	2007 £m
				Total	Total
Parent company					
Subordinated debt:					
€500m 5.75% Subordinated Notes 2021 ^{note i}		482		482	365
€20m Medium-Term Subordinated Notes 2023 ^{note ii}		19		19	15
£435m 6.125% Subordinated Notes 2031		427		427	427
US\$1,000m 6.5% Perpetual Subordinated Capital Securities ^{note iii}	696			696	485
US\$250m 6.75% Perpetual Subordinated Capital Securities ^{note iv}	173			173	124
US\$300m 6.5% Perpetual Subordinated Capital Securities ^{notes iv v}	190			190	154
	1,059	928	–	1,987	1,570
Senior debt:‡					
£249m 5.5% Bonds 2009			249	249	248
£300m 6.875% Bonds 2023			300	300	300
£250m 5.875% Bonds 2029			249	249	249
	–	–	798	798	797
Total parent company†	1,059	928	798	2,785	2,367
Jackson					
US\$250m 8.15% Surplus Notes 2027 ^{note vi}		173		173	125
Total^{note vii}	1,059	1,101	798	2,958	2,492

* These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA Handbook.

† Including central finance subsidiaries.

‡ The senior debt ranks above subordinated debt in the event of liquidation.

Notes

- i The €500 million 5.75 per cent borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962 per cent.
- ii The €20 million Medium-Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2 per cent.
- iii Interest on the US\$1,000 million 6.5 per cent borrowings was swapped into floating rate payments at three month US\$Libor plus 0.80 per cent. In January 2009, this swap was cancelled.
- iv The US\$250 million 6.75 per cent borrowings and the US\$300 million 6.5 per cent borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date falling on or after 23 March 2010 and 23 March 2011 respectively, into one or more series of Prudential preference shares.
- v Interest on the US\$300 million 6.5 per cent borrowings was swapped into floating rate payments at three month US\$Libor plus 0.0225 per cent. In January 2008, this was swapped back into fixed rate payments at 6.5 per cent.
- vi The Surplus Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.
- vii Maturity analysis
The following table sets out the maturity analysis of the Group's core structural borrowings:

	2008 £m	2007 £m
Less than 1 year	249	–
1 to 2 years	–	248
2 to 3 years	–	–
3 to 4 years	–	–
4 to 5 years	–	–
Over 5 years	2,709	2,244
Total	2,958	2,492

Operational borrowings attributable to shareholder-financed operations

	2008 £m	2007 £m
Borrowings in respect of short-term fixed income securities programmes		
Commercial paper	1,269	2,422
Medium-Term Notes 2008	–	48
Medium-Term Notes 2010	9	7
	1,278	2,477
Non-recourse borrowings of US operations^{note i}		
Jackson ^{note ii}	104	126
Investment subsidiaries	23	9
Piedmont and CDO funds ^{note iii}	384	456
	511	591
Other borrowings		
Bank loans and overdrafts ^{note iv}	185	6
Obligations under finance leases	3	7
	188	13
Total^{note vi}	1,977	3,081

Notes

- i In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.
- ii This represents senior debt issued through the Federal Home Loan Bank of Indianapolis and is secured on collateral posted with FHLB by Jackson. The interest rate on this debt is variable based on a market rate and was 0.47 per cent at 31 December 2008.
- iii Piedmont is an investment trust investing in certain asset-backed and mortgage-backed securities in the US. These borrowings pertain to debt instruments issued to external parties.
- iv Bank loans and overdrafts include a short-term loan of £130 million in Asian operations (2007: £nil).
- v In addition to the operational borrowings shown in the table above, in October 2008 Prudential plc issued £200 million Floating Rate Notes 2009, which were wholly subscribed to by a Group subsidiary. These borrowings have been eliminated on consolidation.
- vi Maturity analysis
The following table sets out the maturity analysis of the Group's operational borrowings attributable to shareholder-financed operations:

	2008 £m	2007 £m
Less than 1 year	1,584	2,618
1 to 2 years	9	–
2 to 3 years	38	7
3 to 4 years	52	44
4 to 5 years	240	54
Over 5 years	54	358
Total	1,977	3,081

Borrowings attributable to with-profits funds

	2008 £m	2007 £m
Non-recourse borrowings of consolidated investment funds^{note i}	1,161	789
£100m 8.5% Undated Subordinated Guaranteed Bonds of Scottish Amicable Finance plc ^{note ii}	100	100
Other borrowings (predominantly obligations under finance leases)	47	98
Total^{note iii}	1,308	987

Notes

- i In all instances the holders of the debt instruments issued by these funds do not have recourse beyond the assets of those funds.
- ii The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinate to the entitlements of the policyholders of that fund.

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H13: Borrowings continued

iii Maturity analysis

The following table sets out the maturity analysis of the Group's borrowings attributable to with-profits funds:

	2008 £m	2007 £m
Less than 1 year	272	103
1 to 2 years	12	16
2 to 3 years	150	62
3 to 4 years	418	–
4 to 5 years	–	154
Over 5 years	456	652
Total	1,308	987

H14: Provisions and contingencies

Provisions

	2008 £m	2007 £m
Provision in respect of defined benefit pension schemes: ¹¹		
Deficit, gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies:		
Attributable to PAC with-profits fund (i.e. absorbed by the liability for unallocated surplus)	67	98
Attributable to shareholder-financed operations (i.e. to shareholders' equity)	82	85
	149	183
Add back: Investments in Prudential insurance policies	157	172
Provision after elimination of investments in Prudential insurance policies and matching policyholder liability from Group balance sheet	306	355
Other provisions (see below)	155	220
Total provisions	461	575

Analysis of other provisions:

	2008 £m	2007 £m
At 1 January	220	238
Charged to income statement:		
Additional provisions	48	116
Unused amounts released	(24)	(23)
Used during the year	(101)	(112)
Exchange differences	12	1
At 31 December	155	220
Comprising:		
Legal provisions	23	19
Restructuring provisions	21	35
Other provisions	111	166
Total	155	220

Of the other provisions balance of £155 million (2007: £220 million), £90 million (2007: £77 million) is expected to be settled within one year. Employer contributions expected to be paid into defined benefit pension schemes within one year are shown in note I1.

Legal provisions

The legal provisions of £23 million (2007: £19 million) relate predominantly to Jackson. Jackson has been named in civil proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. During 2008, £2 million was paid.

Restructuring provisions

Restructuring provisions of £21 million (2007: £35 million) relate to restructuring activities of UK insurance operations.

In 2004 and 2005, UK insurance operations implemented restructurings relating to document management review, streamlining operations, and the relocation of activities to an offshore base in India. In December 2005, the Group announced an initiative for UK insurance operations to work more closely with M&G and in the process facilitate the realisation of substantial annualised pre-tax cost savings and opportunities for revenue synergies.

On 28 November 2007 UK insurance operations announced it had entered into a partnership agreement with Capita Group Plc (Capita) to outsource a large proportion of its in-force and new business policy administration. Under the terms of the proposed agreement, Capita will provide customer servicing, policy administration, new business processing, claims activity and related IT support.

At 1 January 2007, a provision of £72 million was brought forward, and during 2007 an additional £21 million was provided, £14 million of unused provision was released, and £44 million was paid.

During 2008, an additional provision of £4 million was provided, £7 million of unused provision was released, and £11 million was paid.

Other provisions

Other provisions of £111 million (2007: £166 million) include provisions of £95 million (2007: £155 million) relating to staff benefit schemes. During 2008, another £37 million was provided (including exchange movements of £6 million), £15 million of unused provision was released and £82 million was paid. In 2007, a provision of £134 million was brought forward, an additional £78 million was provided, £3 million of unused provision was released and £54 million was paid. Other provisions also include £16 million (2007: £11 million) relating to various onerous contracts where, in 2008, an additional £10 million was provided and £5 million was used. In 2007, £18 million was brought forward, £2 million was provided and £1 million was released and £8 million was paid.

Contingencies and related obligations

Litigation

In addition to the legal proceedings relating to Jackson mentioned above, the Group is involved in other litigation and regulatory issues. Whilst the outcome of such matters cannot be predicted with certainty, the directors believe that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

Pension mis-selling review

In 1988, the UK government introduced new pensions legislation intended to encourage more individuals to make their own arrangements for their pensions. During the period from April 1988 to June 1994, many individuals were advised by insurance companies, Independent Financial Advisers and other intermediaries to not join, to transfer from or to opt out of their occupational pension schemes in favour of private pension products introduced under the UK Income and Corporation Taxes Act 1988. The UK insurance regulator (previously the Personal Investment Authority, now the FSA), subsequently determined that many individuals were incorrectly advised and would have been better off not purchasing the private pension products sold to them. Industry participants are responsible for compensating the persons to whom private pensions were mis-sold. As a result, the FSA required that all UK life insurance companies review their potential cases of pension mis-selling and pay compensation to policyholders where necessary and, as a consequence, record a provision for the estimated costs. The Group met the requirement of the FSA to issue offers to all cases by 30 June 2002.

The table below summarises the change in the pension mis-selling provision for the years ended 31 December 2008 and 2007. The change in the provision is included in benefits and claims in the income statement and the movement in unallocated surplus of with-profits funds has been determined accordingly.

	2008 £m	2007 £m
Balance at beginning of year	448	401
Changes to actuarial assumptions and method of calculation	(75)	71
Discount unwind	20	22
Redress to policyholders	(46)	(41)
Payment of administrative costs	(2)	(5)
Balance at end of year	345	448

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H14: Provisions and contingencies continued

The pension mis-selling provision is included within the liabilities in respect of investment contracts with discretionary participation features under IFRS 4.

The pension mis-selling provision at 31 December 2008 set out above of £345 million is stochastically determined on a discounted basis. The average discount rate implied in the movement in the year is 4.0 per cent. The undiscounted amounts at 31 December 2008 expected to be paid in each of the years ending 31 December are as follows:

	2008 £m
Year ended 31 December	
2009	17
2010	8
2011	9
2012	13
2013	12
Thereafter	572
Total undiscounted amount	631
Aggregate discount	(286)
Discounted pension mis-selling provision at 31 December 2008	345

The liability accounting for the contracts which are the subject of the mis-selling provision is reflected in two elements, namely the core policyholder liability determined on the basis applied for other contract liabilities and the mis-selling provision. The overall liability for these contracts remains appropriate in the context of the accounting for policyholder liabilities that determines the calculation of both elements. However, the constituent elements are reallocated and remeasured for the changes arising from the application of the realistic Peak 2 basis of liabilities for the core policyholder liability, as reflected in the IFRS policy improvement to apply the UK GAAP standard FRS 27 as described in section A4.

The FSA periodically updates the actuarial assumptions to be used in calculating the provision, including interest rates and mortality assumptions. The pension mis-selling provision represents the discounted value of future expected payments, including benefit payments and all internal and external legal and administrative costs of adjudicating, processing and settling those claims. To the extent that amounts have not been paid, the provision increases each year reflecting the shorter period of discount.

The directors believe that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling as well as the costs and expenses of the Group's pension review unit established to identify and settle such cases. Such provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The costs associated with the pension mis-selling review have been met from the inherited estate (see below). Accordingly, these costs have not been charged to the asset shares used in the determination of policyholder bonus rates. Hence policyholders' pay-out values have been unaffected by pension mis-selling.

In 1998, Prudential stated that deducting mis-selling costs from the inherited estate would not impact its bonus or investment policy and it gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged. The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing.

This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at 31 December 2003, both for premiums paid before 1 January 2004, and for subsequent regular premiums (including future fixed, RPI or salary related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The maximum amount of capital support available under the terms of the assurance will reduce over time.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies and this is expected to continue for the foreseeable future. Hence removal of the assurance for new business has had no impact on policyholder returns.

In February 2009, the FSA issued a revised consultation paper 09/09 proposing that future payments of compensation and redress for events occurring after 31 July 2009 may only be paid from assets attributable to shareholders.

Mortgage endowment products review

In common with several other UK insurance companies, the Group used to sell low-cost endowment products related to repayment of residential mortgages. At sale, the initial sum assured is set at a level such that the projected benefits, including an estimate of the annual bonus receivable over the life of the policy, will equal or exceed the mortgage debt. Because of a decrease in expected future investment returns since these products were sold, the FSA is concerned that the maturity value of some of these products will be less than the mortgage debt. The FSA has worked with insurance companies to devise a programme whereby the companies write to customers indicating whether they may have a possible shortfall and outline the actions that the customers can take to prevent this possibility.

The Group is exposed to mortgage endowment products in respect of policies issued by Scottish Amicable Life plc (SAL) and policies issued by Scottish Amicable Life Assurance Society (SALAS) which were transferred into SAIF. At 31 December 2008, provisions of £5 million (2007: £5 million) in SAL and £40 million (2007: £43 million) in SAIF were held to cover potential compensation in respect of mortgage endowment product mis-selling claims. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, this provision has no impact on shareholders.

In addition, in the year ended 31 December 2008 Prudential Assurance's main with-profits fund paid compensation of £1 million (2007: £5 million) in respect of mortgage endowment products mis-selling claims and at 31 December 2008 held a provision of £54 million (2007: £55 million) in respect of further compensation. The movement in this provision has no impact on the Group's profit before tax.

In May 2006, the Group introduced a deadline for both Prudential and Scottish Amicable mortgage endowment complaints. Impacted customers have three years to lodge a mis-selling complaint in line with the time limit prescribed by the FSA and the ABI.

Guaranteed annuities

Prudential Assurance used to sell guaranteed annuity products in the UK and at 31 December 2008 held a provision of £42 million (2007: £45 million) within the main with-profits fund to honour guarantees on these products. The Group's main exposure to guaranteed annuities in the UK is through SAIF and at 31 December 2008 a provision of £391 million (2007: £563 million) was held in SAIF to honour the guarantees. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, the movement in this provision has no impact on shareholders.

Other matters

Inherited estate of the PAC long-term fund

The assets of the with-profits sub-fund (WPSF) within the long-term fund of The Prudential Assurance Company Limited (PAC) comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the WPSF is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the WPSF is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate, as working capital, enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

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 reattribution. In June 2008 Prudential announced that it did not believe that it was in the interests of current or future policyholders or shareholders to continue the reattribution process. This announcement reflects Prudential's overriding priority which is to maintain the long-term financial security of the WPSF and to continue delivering strong performance for the benefit of its policyholders.

Support for long-term business funds by shareholders' funds

As a proprietary insurance company, Prudential Assurance is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1997, the business of SALAS, a mutual society, was transferred to Prudential Assurance. In effecting the transfer, a separate sub-fund, SAIF, was established within Prudential Assurance's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund and the sub-fund is managed to ensure that all the invested assets are distributed to SAIF policyholders over the lifetime of SAIF

Notes on the Group financial statements

H: Other information on balance sheet items

continued

H14: Provisions and contingencies continued

policies. With the exception of certain amounts in respect of the unitised with-profits life business, all future earnings arising in SAIF are retained for SAIF policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is offset by a transfer to (from) the SAIF unallocated surplus. Shareholders have no interest in the profits of SAIF but are entitled to the asset management fees paid on this business. With the exception of certain guaranteed annuity products mentioned earlier in this note, and certain products which include a minimum guaranteed rate of accumulation, the majority of SAIF with-profits policies do not guarantee minimum rates of return to policyholders.

Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations to the policyholders of SAIF, the Prudential Assurance long-term fund would be liable to cover any such deficiency. Due to the quality and diversity of the assets in SAIF and the ability of SAIF to revise guaranteed benefits in the event of an asset shortfall, the directors believe that the probability of either the Prudential Assurance long-term fund or the Group's shareholders' funds having to contribute to SAIF is remote.

Guarantees and commitments

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies. These guarantee funds are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The Group estimated its reserve for future guarantee fund assessments for Jackson to be £18 million at 31 December 2008 (2007: £9 million). Similar assessments for the UK businesses were not significant. The directors believe that the reserve is adequate for all anticipated payments for known insolvencies.

At 31 December 2008, Jackson has unfunded commitments of £400 million (2007: £181 million) related to its investments in limited partnerships and of £24 million (2007: £104 million) related to commercial mortgage loans. These commitments were entered into in the normal course of business and the directors do not expect a material adverse impact on the operations to arise from them.

Jackson owns debt instruments issued by two separate securitisation trusts managed by PPM America which are consolidated into the Group accounts, SERVES 2001-6 (SERVES 2) and SERVES 2004-1 (SERVES 3). Jackson has a £50 million debt interest in SERVES 2 and a £33 million debt interest in SERVES 3. The creditors of the entities have no recourse to the general credit of Jackson. During 2008, Jackson entered into 'Option Put and Forbearance Agreements' with the counterparty to these two entities in exchange for the counterparty forbearing its right to initiate forced liquidations of the entities under certain market value triggers. The support provided by the agreements could potentially expose Jackson to maximum losses of £118 million and £103 million for SERVES 2 and SERVES 3, respectively, if circumstances allowed the forbearance period to cease. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreements is remote.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the directors do not consider that the amounts involved are significant.

H15: Other liabilities

	2008 £m	2007 £m
Creditors arising from direct insurance and reinsurance operations	552	538
Interest payable	139	76
Other items	199	177
Total	890	791