PIMCO MUNICIPAL INCOME FUND II
Form N-CSR
August 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21076

PIMCO Municipal Income Fund II

(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York 10019

(Address of principal executive offices) (Zip code)

Lawrence G. Altadonna 1633 Broadway, New York, New York 10019

(Name and address of agent for service)

Registrant s telephone number, including area code: 212-739-3371

Date of fiscal year end: May 31, 2011

Date of reporting period: May 31, 2011

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e -1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-2001. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

ITEM 1. REPORT TO SHAREHOLDERS

Annual Report

May 31, 2011

PIMCO Municipal Income Fund II
PIMCO California Municipal Income Fund II
PIMCO New York Municipal Income Fund II

Contents

Dear Shareholder:

Municipal bond prices experienced volatility for much of the fiscal year ended May 31, 2011 although a solid rally in the latter portion of the reporting period suggested that the municipal market had righted itself.

Hans W. Kertess
Chairman

Year in Review

For the fiscal year ended May 31, 2011:

- PIMCO Municipal Income Fund II returned 1.38% on net asset value (NAV) and 1.30% on market price.
- PIMCO California Municipal Income Fund II returned 0.50% on NAV and 7.53% on market price.
- PIMCO New York Municipal Income Fund II returned 0.05% on NAV and 3.03% on market price.

Brian S. Shlissel
President & CEO

Lackluster returns for municipal bonds can largely be tied to two events that occurred in the fall of 2010. With U.S. economic growth continuing at a less-than-robust pace, the Federal Reserve (the Fed) unveiled plans for a second round of quantitative easing. The plan, known as QE2 , called for the purchase of up to $900 billion in U.S. Treasury securities, which the Fed hoped would push interest rates lower in an effort to spur economic activity. The Fed s program, however, generally excluded Treasury bonds with longer maturities. Prices for long-term Treasuries declined, and municipal bonds whose prices closely correlate with Treasuries, fell as well.

Municipal bonds also struggled as the federal government s Build America Bonds (BAB) program came to end on December 31, 2010. The BAB program, part of the Obama administration s economic stimulus program, was designed to subsidize borrowing costs for state and local government municipal projects. After the November 2010 election, however, it became clear that the new Congress would not extend the BAB program. With just weeks before the program was due to expire, many state and city governments flooded the municipal market with BABs. Supply exceeded demand, causing municipal bond prices to fall.

The decline proved to be short-lived as in the first five months of 2011, the final months of the Funds fiscal year, 51% fewer municipal bonds came to market, according to Thomson Reuters. This lack of supply helped spark a municipal bond rally, erasing much of the losses which occurred in November and December 2010.

The Road Ahead and the Case for Municipal Bonds

The U.S. economy has now expanded for seven consecutive quarters, albeit at a modest pace. The Fed has forecast that growth should continue, but at a frustratingly slow rate. This will continue to challenge cash-strapped states, which face a collective $112 billion budget shortfall for fiscal year 2012.

The Bush-era tax cuts have been extended for two years and are scheduled to expire on December 31, 2012. While federal tax brackets will remain stable until then, budget pressures at all levels of government, federal, state and local, suggest that taxes will move higher over the long term. This in turn bodes well for municipal bonds, which offer considerable tax advantages for investors.

Receive this report electronically and eliminate paper mailings. To enroll, go to www.allianzinvestors.com/ edelivery.

For specific information on the Funds and their performance, please review the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources are available on our Web site, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds investment manager, and Pacific Investment Management Company LLC, the Funds sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer

PIMCO Municipal Income Funds II **Fund Insights**
May 31, 2011 (unaudited)

For the fiscal year ended May 31, 2011, PIMCO Municipal Income Fund II returned 1.38% on net asset value (NAV) and 1.30% on market price.

For the fiscal year ended May 31, 2011, PIMCO California Municipal Income Fund II returned 0.50% on net asset value (NAV) and 7.53% on market price.

For the fiscal year ended May 31, 2011, PIMCO New York Municipal Income Fund II returned 0.05% on net asset value (NAV) and 3.03% on market price.

The municipal bond market experienced periods of heightened volatility during the fiscal year ended May 31, 2011. The overall municipal market (as measured by the Barclays Capital Municipal Bond Index) posted a positive return during the first three months of the fiscal year, aided by overall solid demand from investors seeking tax-free income. A decline in new issuance of tax-free bonds was also beneficial. The municipal market produced poor results from September 2010 through January 2011. A confluence of events dragged down municipal bonds. Rising interest rates, concerns regarding municipal defaults, increasing issuance of Build America Bonds at the end of 2010, and substantial mutual fund redemptions contributed to the downturn in the municipal market. However, the municipal market rallied during much of the remainder of the fiscal year, as tax revenues increased, new issuance fell sharply and a number of states took meaningful steps to improve their balance sheets. In addition, there was increased demand from crossover buyers, including non-traditional municipal investors, such as insurance companies and hedge funds.

During the fiscal year, a slightly shorter duration than that of the benchmark was beneficial to the Funds performance, as municipal yields longer than 12 years rose during the reporting period. A steepening yield curve bias was a positive for results, as the municipal curve steepened during the reporting period.

All three Funds benefited from their exposure to the water and sewer sector, as it held up relatively well during periods of weakness in the municipal market. Having an exposure to the power sector contributed to the performance of Municipal Income II and California Municipal II, whereas New York Municipal II benefited from its exposure to the leasing sector.

In contrast, the Funds exposure to the tobacco sector detracted from performance. During the fourth quarter of 2010, a number of municipal tobacco settlement trusts were downgraded to below investment grade status. This triggered a sharp sell-off, which was exacerbated by forced selling into an illiquid market by mutual funds not permitted to hold non-investment grade securities. The three Funds exposure to the corporate-backed sector also adversely impacted performance as they lagged the benchmark. In addition, Municipal Income II and New York Municipal II were hurt by their exposure to the healthcare sector.

PIMCO Municipal Income Funds II **Fund Performance & Statistics**
May 31, 2011 (unaudited)

Municipal Income Fund II:

Total Return [1]**:**	**Market Price**	**NAV**
1 Year	1.30%	1.38%
5 Year	0.41%	0.59%
Commencement of Operations (6/28/02) to 5/31/11	2.84%	2.99%

Market Price/NAV Performance:
Commencement of Operations (6/28/02) to 5/31/11
Market Price/NAV:

Market Price	$ 10.45
NAV	$ 10.12
Premium to NAV	3.26%
Market Price Yield[2]	7.46%

Moody s Ratings
(as a % of total investments)

California Municipal Income Fund II:

Total Return[1]**:**	**Market Price**	**NAV**
1 Year	7.53%	0.50%
5 Year	1.49%	5.23%
Commencement of Operations (6/28/02) to 5/31/11	1.75%	0.05%

Market Price/NAV Performance:
Commencement of Operations (6/28/02) to 5/31/11
Market Price/NAV:

Market Price	$9.21
NAV	$7.38
Premium to NAV	24.80%
Market Price Yield(2)	7.74%

Moody s Ratings
(as a % of total investments)

PIMCO Municipal Income Funds II **Fund Performance & Statistics**
May 31, 2011 (unaudited) (continued)

New York Municipal Income Fund II:

Total Return(1)**:**	**Market Price**	**NAV**
1 Year	3.03%	0.05%
5 Year	1.61%	0.59%
Commencement of Operations (6/28/02) to 5/31/11	3.12%	2.81%

Market Price/NAV Performance:
Commencement of Operations (6/28/02) to 5/31/11
Market Price/NAV:

Market Price	$10.92
NAV	$10.10
Premium to NAV	8.12%
Market Price Yield(2)	7.04%

Moody s Ratings
(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends and capital gain distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Funds, market conditions, supply and demand for the Funds shares, or changes in Funds dividends.

An investment in the Funds involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a onetime public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend (comprised of net investment income) payable to common shareholders by the market price per common share at May 31, 2011.

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
MUNICIPAL BONDS & NOTES 96.4%			
	Alabama 1.3%		
$ 10,000	Birmingham-Baptist Medical Centers Special Care Facs. Financing Auth. Rev., Baptist Health Systems, Inc., 5.00%, 11/15/30, Ser. A	Baa2/NR	$ 8,523,800
1,235	Montgomery BMC Special Care Facs. Financing Auth. Rev., 5.00%, 11/15/29, Ser. B (NPFGC)	A3/BBB+	1,084,503
2,000	State Docks Department Rev., 6.00%, 10/1/40	NR/BBB+	2,002,620
2,650	Tuscaloosa Public Educational Building Auth. Rev., Stillman College Project, 5.00%, 6/1/26, Ser. A	NR/BB+	2,214,658
			13,825,581
	Alaska 0.7%		
3,550	Housing Finance Corp. Rev., 5.25%, 6/1/32, Ser. C (NPFGC)	Aa2/AA+	3,565,656
5,900	Northern Tobacco Securitization Corp. Rev., 5.00%, 6/1/46, Ser. A	Baa3/NR	3,547,316
			7,112,972
	Arizona 9.1%		
	Health Facs. Auth. Rev., Banner Health,		
3,500	5.00%, 1/1/35, Ser. A	NR/A+	3,257,100
2,860	5.50%, 1/1/38, Ser. D	NR/A+	2,820,561
	Pima Cnty. Industrial Dev. Auth. Rev.,		
29,700	5.00%, 9/1/39	Aa2/AA	27,236,682
1,500	Tuscon Electric Power Co., 5.25%, 10/1/40, Ser. A	Baa3/BBB	1,374,390
	Salt River Project Agricultural Improvement & Power Dist. Rev., Ser. A (i),		
41,100	5.00%, 1/1/37	Aa1/AA	41,905,971
10,000	5.00%, 1/1/39	Aa1/AA	10,291,800
11,400	Salt Verde Financial Corp. Rev., 5.00%, 12/1/37	A3/A	10,099,716
			96,986,220
	California 14.9%		
	Bay Area Toll Auth. Rev., San Francisco Bay Area,		
6,000	5.00%, 10/1/29	A1/A+	6,152,520
1,430	5.00%, 4/1/34, Ser. F-1	Aa3/AA	1,443,900
1,565	Foothill-Eastern Transportation Corridor Agcy. Rev., 5.875%, 1/15/26 (IBC-NPFGC)	Baa1/BBB	1,499,051
	Golden State Tobacco Securitization Corp. Rev., Ser. A-1,		
8,750	5.00%, 6/1/33	Baa3/BB+	5,905,112
7,000	5.75%, 6/1/47	Baa3/BB+	4,814,530
2,000	Hayward Unified School Dist., GO, 5.00%, 8/1/33	NR/A+	1,825,980
1,500	Health Facs. Financing Auth. Rev., Scripps Health, 5.00%, 11/15/36, Ser. A	Aa3/AA	1,364,085
	Sutter Health,		
6,300	5.00%, 11/15/42, Ser. A (IBC-NPFGC)	Aa3/AA	5,679,954
3,000	6.00%, 8/15/42, Ser. B	Aa3/AA	3,137,730
1,500	Indian Wells Redev. Agcy., Tax Allocation, Whitewater Project, 4.75%, 9/1/34, Ser. A (AMBAC)	A2/A	1,163,490

PIMCO Municipal Income Fund II Schedule of Investments
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	California (continued)		
$ 2,000	Los Angeles Community College Dist.,		
	GO, 5.00%, 8/1/32, Ser. A (FGIC-NPFGC)	Aa1/AA	$ 2,015,680
4,000	Los Angeles Department of Water & Power Rev.,		
	5.00%, 7/1/39, Ser. A-1 (AMBAC)	Aa3/AA	4,018,560
	Los Angeles Unified School Dist., GO,		
5,000	5.00%, 7/1/30, Ser. E (AMBAC)	Aa2/AA	5,082,700
5,000	5.00%, 7/1/32, Ser. C (AGM)	Aa2/AA+	5,044,100
1,365	Lynwood Utility Auth. Rev., 5.00%, 6/1/29, Ser. A (AGC)	Aa3/AA+	1,373,941
2,000	Montebello Unified School Dist., GO, 5.00%, 8/1/33 (AGM)	Aa3/AA+	2,027,500
1,750	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	NR/A	1,914,290
3,300	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project,		
	7.75%, 4/1/31, Ser. B	NR/NR	3,394,215
650	Murrieta Valley Unified School Dist. Public Financing Auth.,		
	Special Tax, 4.75%, 9/1/36, Ser. A	Aa3/AA+	575,061
3,000	Newport Beach Rev., Hoag Memorial Hospital Presbyterian,		
	5.875%, 12/1/30	Aa3/AA	3,182,130
500	Peralta Community College Dist., GO, 5.00%, 8/1/39, Ser. C	NR/AA-	473,260
2,000	San Diego Cnty. Water Auth., CP, 5.00%, 5/1/38,		
	Ser. 2008-A (AGM)	Aa2/AA+	1,994,040
2,000	Santa Clara Cnty. Financing Auth. Rev., 5.75%, 2/1/41,		
	Ser. A (AMBAC)	A2/A+	1,977,360
	State, GO,		
3,300	4.50%, 8/1/27	A1/A	3,160,740
1,000	4.50%, 8/1/30	A1/A	910,940
1,100	4.50%, 10/1/36	A1/A	958,001
7,000	5.00%, 12/1/31 (NPFGC)	A1/A	7,019,250
2,925	5.00%, 11/1/32	A1/A	2,921,051
1,590	5.00%, 6/1/37	A1/A	1,542,745
5,200	5.125%, 8/1/36	A1/A	5,188,664
2,500	5.25%, 3/1/38	A1/A	2,499,800
5,945	5.25%, 11/1/40	A1/A	5,944,703
5,750	5.50%, 3/1/40	A1/A	5,959,415
10,500	6.00%, 4/1/38	A1/A	11,235,525
2,300	State Univ. Rev., 5.00%, 11/1/30, Ser. A (AMBAC)	Aa2/A+	2,277,345
3,820	Statewide Communities Dev. Auth. Rev.,		
	California Baptist Univ., 9.00%, 11/1/17, Ser. B (a)(c)	NR/NR	3,458,170
1,000	Cottage Health, 5.00%, 11/1/40	NR/A+	907,540
	Methodist Hospital Project (FHA),		
5,500	6.625%, 8/1/29	Aa2/NR	6,262,300
19,500	6.75%, 2/1/38	Aa2/NR	21,679,320
5,690	Sutter Health, 6.00%, 8/15/42, Ser. A	Aa3/AA	5,951,228
4,725	Torrance Rev., Memorial Medical Center, 5.00%, 9/1/40, Ser. A	A2/A+	4,195,138
			158,131,064
	Colorado 1.0%		
5,800	Aurora Rev., Children s Hospital Assoc., 5.00%, 12/1/40	A1/A+	5,435,238
1,000	Denver Health & Hospital Auth. Rev., 5.625%, 12/1/40	NR/BBB	925,110

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Colorado (continued)		
	Health Facs. Auth. Rev., Ser. A,		
$ 1,000	American Baptist Homes, 5.90%, 8/1/37	NR/NR	$ 793,820
500	Evangelical Lutheran, 6.125%, 6/1/38	A3/A	489,980
2,000	Housing & Finance Auth. Rev., Evergreen Country Day School, Inc. Project, 5.875%, 6/1/37 (a)(c)	NR/CCC	1,297,380
1,430	Public Auth. for Colorado Energy Rev., 6.50%, 11/15/38	A2/A	1,552,065
			10,493,593
	Connecticut 0.1%		
1,250	Harbor Point Infrastructure Improvement Dist., Tax Allocation, 7.875%, 4/1/39, Ser. A	NR/NR	1,315,900
	Florida 5.4%		
1,000	Brevard Cnty. Health Facs. Auth. Rev., Health First, Inc. Project, 7.00%, 4/1/39	A3/A	1,080,410
600	Broward Cnty. Airport Rev., 5.375%, 10/1/29, Ser. O	A1/A+	620,910
8,500	Broward Cnty. Water & Sewer Rev., 5.25%, 10/1/34, Ser. A (i)	Aa2/AA	8,818,410
1,000	Clearwater Rev., 5.25%, 12/1/39, Ser. A	Aa3/AA	1,036,740
6,205	Governmental Utility Auth. Rev., Barefoot Bay Utilities System, 5.00%, 10/1/29 (AMBAC)	WR/NR	6,210,026
3,000	Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System, 5.625%, 11/15/37, Ser. B	Aa3/AA	3,024,960
7,135	Jacksonville Health Facs. Auth. Rev., Ascension Health, 5.25%, 11/15/32, Ser. A	Aa1/AA+	7,164,039
3,000	Leesburg Hospital Rev., Leesburg Regional Medical Center Project, 5.50%, 7/1/32	Baa1/BBB+	2,764,560
3,490	Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A	A2/A	3,512,860
500	Sarasota Cnty. Health Facs. Auth. Rev., 5.75%, 7/1/37	NR/NR	396,595
7,900	State Board of Education, GO, 5.00%, 6/1/38, Ser. D (i)	Aa1/AAA	8,093,471
5,000	Sumter Landing Community Dev. Dist. Rev., 4.75%, 10/1/35, Ser. A (NPFGC)	Baa1/BBB	4,160,600
10,000	Tallahassee Rev., 5.00%, 10/1/37 (i)	Aa1/AA+	10,216,800
			57,100,381
	Georgia 0.3%		
1,500	Atlanta Airport Rev., 5.00%, 1/1/40, Ser. A	A1/NR	1,499,940
2,775	Medical Center Hospital Auth. Rev., Spring Harbor Green Island Project, 5.25%, 7/1/37	NR/NR	2,131,450
			3,631,390
	Illinois 10.2%		
	Chicago, GO, Ser. C,		
10,000	5.00%, 1/1/34 (i)	Aa3/A+	9,544,000
4,065	5.50%, 1/1/40 (FGIC-NPFGC)	Aa3/A+	3,995,814
	Chicago, Special Assessment, Lake Shore East,		
3,161	6.625%, 12/1/22	NR/NR	3,127,241
6,697	6.75%, 12/1/32	NR/NR	6,505,064
1,250	Chicago Motor Fuel Tax Rev., 5.00%, 1/1/38, Ser. A (AGC)	Aa3/AA+	1,250,637
5,000	Cicero, GO, 5.25%, 12/1/31 (NPFGC)	Baa1/BBB	5,018,500

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Illinois (continued)		
	Finance Auth. Rev.,		
$ 2,500	Christian Homes, Inc., 5.75%, 5/15/31, Ser. A	NR/NR	$ 2,243,125
20,100	Elmhurst Memorial Healthcare, 5.625%, 1/1/28	Baa1/NR	18,141,456
250	Leafs Hockey Club Project, 6.00%, 3/1/37, Ser. A (d)	NR/NR	62,377
1,000	Memorial Health Systems, 5.50%, 4/1/39	A1/A+	957,390
700	OSF Healthcare System, 7.125%, 11/15/37, Ser. A	A3/A	736,099
2,000	Provena Health, 6.00%, 5/1/28, Ser. A	Baa1/BBB+	1,962,420
5,000	Univ. of Chicago, 5.50%, 7/1/37, Ser. B (i)	Aa1/AA	5,232,150
42,970	Sports Facs. Auth. Rev., 5.50%, 6/15/30 (AMBAC)	WR/A	43,174,967
	Village of Hillside, Tax Allocation, Mannheim Redev. Project,		
4,500	6.55%, 1/1/20	NR/NR	4,181,760
2,900	7.00%, 1/1/28	NR/NR	2,493,768
			108,626,768
	Indiana 0.7%		
	Finance Auth. Rev.,		
1,500	Duke Energy Indiana, Inc., 6.00%, 8/1/39, Ser. B	NR/A	1,587,030
2,500	U.S. Steel Corp., 6.00%, 12/1/26	Ba2/BB	2,545,150
	Vigo Cnty. Hospital Auth. Rev., Union Hospital, Inc.,		
990	5.80%, 9/1/47 (a)(c)	NR/NR	780,031
1,900	7.50%, 9/1/22	NR/NR	1,975,373
			6,887,584
	Iowa 4.0%		
	Finance Auth. Rev.,		
	Deerfield Retirement Community, Inc., Ser. A,		
250	5.50%, 11/15/27	NR/NR	180,342
1,075	5.50%, 11/15/37	NR/NR	702,986
4,500	Edgewater LLC Project, 6.75%, 11/15/42	NR/NR	3,967,470
850	Wedum Walnut Ridge LLC Project, 5.625%, 12/1/45, Ser. A	NR/NR	495,788
46,000	Tobacco Settlement Auth. Rev., 5.60%, 6/1/34, Ser. B	Baa3/BBB	36,616,920
			41,963,506
	Kansas 0.1%		
500	Dev. Finance Auth. Rev., Adventist Health, 5.75%, 11/15/38	Aa3/AA	523,820
850	Manhattan Rev., Meadowlark Hills Retirement,		
	5.00%, 5/15/36, Ser. A	NR/NR	637,874
			1,161,694
	Kentucky 0.3%		
2,500	Economic Dev. Finance Auth. Rev.,		
	Catholic Healthcare Partners, 5.25%, 10/1/30	A1/AA	2,490,800
1,000	Owensboro Medical Healthcare Systems,		
	6.375%, 6/1/40, Ser. A	Baa2/NR	969,840
			3,460,640
	Louisiana 4.4%		
	Local Gov t Environmental Facs. & Community Dev. Auth. Rev.,		
450	Westlake Chemical Corp., 6.50%, 11/1/35, Ser. A 2	Ba2/BBB-	462,064
	Woman s Hospital Foundation, Ser. A,		
750	5.875%, 10/1/40	A3/BBB+	723,052
1,000	6.00%, 10/1/44	A3/BBB+	975,980

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Louisiana (continued)		
	Public Facs. Auth. Rev., Oschsner Clinic Foundation Project,		
$ 3,300	5.50%, 5/15/47, Ser. B	Baa1/NR	$ 2,835,030
2,000	6.50%, 5/15/37	Baa1/NR	2,036,540
43,395	Tobacco Settlement Financing Corp. Rev.,		
	5.875%, 5/15/39, Ser. 2001-B	Baa3/A	39,918,627
			46,951,293
	Maryland 0.7%		
	Health & Higher Educational Facs. Auth. Rev.,		
1,000	Adventist Healthcare, 5.75%, 1/1/25, Ser. A	Baa2/NR	1,003,980
1,400	Charlestown Community, 6.25%, 1/1/41	NR/NR	1,386,868
1,010	King Farm Presbyterian Community, 5.30%, 1/1/37, Ser. A	NR/NR	717,666
4,050	Washington Cnty. Hospital, 6.00%, 1/1/43	NR/BBB-	3,820,810
			6,929,324
	Massachusetts 0.8%		
	Dev. Finance Agcy. Rev.,		
	Adventcare Project,		
4,610	6.75%, 10/15/37, Ser. A	NR/NR	4,132,450
580	7.625%, 10/15/37	NR/NR	576,984
1,000	Foxborough Regional Charter School,		
	7.00%, 7/1/42, Ser. A	NR/BBB	1,016,010
2,900	State College Building Auth. Rev., 5.50%, 5/1/39, Ser. A	Aa2/AA	3,005,154
			8,730,598
	Michigan 3.1%		
1,000	Detroit, GO, 5.25%, 11/1/35	Aa3/AA	1,014,790
4,545	Garden City Hospital Finance Auth. Rev., 5.00%, 8/15/38, Ser. A	NR/NR	2,959,568
800	Public Educational Facs. Auth. Rev., Bradford Academy,		
	6.50%, 9/1/37 (a)(c)	NR/BBB	698,000
3,000	Royal Oak Hospital Finance Auth. Rev.,		
	William Beaumont Hospital, 8.25%, 9/1/39	A1/A	3,444,600
5,000	State Hospital Finance Auth. Rev.,		
	Ascension Health, 5.25%, 11/15/26, Ser. B	Aa1/AA+	5,057,050
	Oakwood Group, Ser. A,		
13,500	5.75%, 4/1/32	A2/A	13,385,520
1,925	6.00%, 4/1/22	A2/A	1,955,723
6,000	Tobacco Settlement Finance Auth. Rev., 6.00%, 6/1/48, Ser. A	NR/BB	4,136,880
			32,652,131
	Minnesota 0.6%		
150	Duluth Housing & Redev. Auth. Rev., 5.875%, 11/1/40, Ser. A	NR/BBB	131,754
280	Minneapolis, Tax Allocation, Grant Park Project, 5.35%, 2/1/30	NR/NR	229,479
1,500	Minneapolis Rev., Providence Project, 5.75%, 10/1/37, Ser. A	NR/NR	1,285,305
	North Oaks Rev., Presbyterian Homes North Oaks,		
2,640	6.00%, 10/1/33	NR/NR	2,464,757
1,530	6.125%, 10/1/39	NR/NR	1,431,652
500	Oronoco Rev., Wedum Shorewood Campus Project,		
	5.40%, 6/1/41	NR/NR	409,820
400	St. Louis Park Rev., Nicollett Health Services, 5.75%, 7/1/39	NR/A	393,412
			6,346,179

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Mississippi 0.4%		
$ 3,605	Business Finance Corp. Rev., System Energy Res., Inc. Project, 5.875%, 4/1/22	Ba1/BBB	$ 3,574,790
740	Dev. Bank Special Obligation Rev., Capital Projects and Equipment Acquisition, 5.00%, 7/1/24, Ser. A 2 (AMBAC)	WR/NR	705,782
			4,280,572
	Missouri 1.8%		
20,000	JT Municipal Electric Utility Commission Rev., 5.00%, 1/1/42, Ser. A (AMBAC)	A3/NR	19,301,000
	Nevada 0.9%		
10,000	Clark Cnty., GO, 4.75%, 11/1/35 (FGIC-NPFGC) (i)	Aa1/AA+	9,731,800
	New Hampshire 0.2%		
2,000	Business Finance Auth. Rev., Elliot Hospital, 6.125%, 10/1/39, Ser. A	Baa1/BBB+	1,961,580
360	Health & Education Facs. Auth. Rev., Catholic Medical Center, 6.125%, 7/1/32, Ser. A	Baa1/BBB+	355,162
			2,316,742
	New Jersey 3.6%		
950	Burlington Cnty. Bridge Commission Rev., The Evergreens Project, 5.625%, 1/1/38	NR/NR	797,297
	Economic Dev. Auth., Special Assessment, Kapkowski Road Landfill Project,		
4,000	5.75%, 10/1/21	Ba2/NR	3,987,320
11,405	5.75%, 4/1/31	Ba2/NR	10,674,738
	Economic Dev. Auth. Rev.,		
525	Arbor Glen, 6.00%, 5/15/28, Ser. A	NR/NR	444,339
2,000	MSU Student Housing Project, 5.875%, 6/1/42	Baa3/NR	1,836,640
3,300	Educational Facs. Auth. Rev., Fairfield Dickinson Univ., 6.00%, 7/1/25, Ser. D	NR/NR	3,308,085
	Health Care Facs. Financing Auth. Rev.,		
1,500	AHS Hospital Corp., 6.00%, 7/1/37	A1/A	1,563,255
1,500	St. Peters Univ. Hospital, 5.75%, 7/1/37	Baa3/BBB	1,303,875
1,830	Trinitas Hospital, 5.25%, 7/1/30, Ser. A	Baa3/BBB	1,620,154
2,000	State Turnpike Auth. Rev., 5.25%, 1/1/40, Ser. E	A3/A+	2,033,660
	Tobacco Settlement Financing Corp. Rev., Ser. 1-A,		
3,300	4.75%, 6/1/34	Baa3/BB+	2,101,275
13,150	5.00%, 6/1/41	Baa3/BB-	8,397,721
			38,068,359
	New Mexico 0.2%		
2,000	Farmington Pollution Control Rev., 5.90%, 6/1/40, Ser. D	Baa3/BB+	1,932,720
	New York 2.7%		
1,200	Erie Cnty. Industrial Dev. Agcy. Rev., Orchard Park, Inc. Project, 6.00%, 11/15/36, Ser. A	NR/NR	857,988

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	New York (continued)		
	Liberty Dev. Corp. Rev.,		
$ 1,000	5.125%, 1/15/44	NR/AA	$ 972,920
2,500	5.625%, 7/15/47	NR/A	2,512,525
1,250	6.375%, 7/15/49	NR/BBB	1,276,025
	Goldman Sachs Headquarters,		
1,505	5.25%, 10/1/35	A1/A	1,504,880
10,000	5.25%, 10/1/35 (i)	A1/A	9,999,200
1,100	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	NR/NR	987,998
2,830	New York City Municipal Water Finance Auth. Water & Sewer Rev., 5.00%, 6/15/37, Ser. D (i)	Aa1/AAA	2,874,318
	Second Generation Resolutions,		
4,000	4.75%, 6/15/35, Ser. DD (i)	Aa2/AA+	4,020,760
2,000	5.00%, 6/15/39, Ser. GG-1	Aa2/AA+	2,047,800
1,750	State Dormitory Auth. Rev., The New School, 5.50%, 7/1/40	A3/A	1,811,862
250	Suffolk Cnty. Industrial Dev. Agcy. Rev., New York Institute of Technology, 5.00%, 3/1/26	Baa2/BBB+	243,870
			29,110,146
	North Carolina 0.1%		
	Medical Care Commission Rev.,		
550	Salemtowne, 5.10%, 10/1/30	NR/NR	476,778
1,000	Village at Brookwood, 5.25%, 1/1/32	NR/NR	728,590
			1,205,368
	North Dakota 0.3%		
3,710	Stark Cnty. Healthcare Rev., Benedictine Living Communities, 6.75%, 1/1/33	NR/NR	3,414,461
	Ohio 1.5%		
	Buckeye Tobacco Settlement Financing Auth. Rev.,		
1,865	5.75%, 6/1/34, Ser. A 2	Baa3/BB	1,316,205
500	5.875%, 6/1/47, Ser. A 2	Baa3/BB	342,460
1,000	Higher Educational Fac. Commission Rev., Univ. Hospital Health Systems, 6.75%, 1/15/39, Ser. 2009-A	A2/A	1,040,410
7,500	Lorain Cnty. Hospital Rev., Catholic Healthcare, 5.375%, 10/1/30	A1/AA	7,530,375
500	Lorain Cnty. Port Auth. Rev., U.S. Steel Corp. Project, 6.75%, 12/1/40	Ba2/BB	518,060
1,000	Montgomery Cnty. Rev., Miami Valley Hospital, 6.25%, 11/15/39, Ser. A	Aa3/NR	1,027,980
	State Rev.,		
550	Ashland Univ. Project, 6.25%, 9/1/24	Ba1/NR	547,003
3,000	Cleveland Clinic Health System, 5.50%, 1/1/39, Ser. B	Aa2/AA	3,042,510
			15,365,003
	Oregon 0.2%		
1,000	Clackamas Cnty. Hospital Fac. Auth. Rev., Legacy Health System, 5.50%, 7/15/35, Ser. A	A2/A+	1,019,600

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Oregon (continued)		
$ 1,155	State Department of Administrative Services, CP, 5.25%, 5/1/39, Ser. A	Aa2/AA	$ 1,181,958
			2,201,558
	Pennsylvania 5.0%		
	Cumberland Cnty. Municipal Auth. Rev., Messiah Village Project, Ser. A,		
750	5.625%, 7/1/28	NR/BBB	667,268
670	6.00%, 7/1/35	NR/BBB	591,087
3,250	Harrisburg Auth. Rev., Harrisburg Univ. of Science, 6.00%, 9/1/36, Ser. B	NR/NR	2,792,042
	Higher Educational Facs. Auth. Rev.,		
850	Edinboro Univ. Foundation, 6.00%, 7/1/43	Baa3/BBB	832,184
400	Thomas Jefferson Univ., 5.00%, 3/1/40	A1/AA	400,248
500	Luzerne Cnty. Industrial Dev. Auth. Rev., Pennsylvania American Water Co., 5.50%, 12/1/39	A2/A	509,160
	Montgomery Cnty. Higher Education & Health Auth. Rev., Abington Memorial Hospital, Ser. A,		
5,000	5.125%, 6/1/27	NR/A	4,959,600
3,750	5.125%, 6/1/32	NR/A	3,621,413
8,500	Montgomery Cnty. Industrial Dev. Auth. Rev., 5.375%, 8/1/38 (FHA)	Aa2/AA	8,600,470
17,000	Philadelphia, GO, 5.25%, 12/15/32, Ser. A (AGM)	Aa3/AA+	17,189,210
11,600	Philadelphia Hospitals & Higher Education Facs. Auth. Rev., Temple Univ. Hospital, 6.625%, 11/15/23, Ser. A	Baa3/BBB	11,484,348
500	Philadelphia Water Rev., 5.25%, 1/1/36, Ser. A	A1/A	502,460
1,000	Westmoreland Cnty. Industrial Dev. Auth. Rev., Excela Health Project, 5.125%, 7/1/30	A3/NR	957,130
			53,106,620
	Puerto Rico 0.9%		
10,000	Sales Tax Financing Corp. Rev., 5.25%, 8/1/41, Ser. C	A1/A+	9,492,400
	Rhode Island 4.6%		
56,200	Tobacco Settlement Financing Corp. Rev., 6.25%, 6/1/42, Ser. A	Baa3/BBB	49,176,686
	South Carolina 1.4%		
1,000	Greenwood Cnty. Rev., Self Regional Healthcare, 5.375%, 10/1/39	A2/A+	968,140
500	Jobs-Economic Dev. Auth. Rev., Anmed Health, 5.50%, 2/1/38, Ser. B (AGC)	NR/AA+	504,000
13,850	Bon Secours Health System, 5.625%, 11/15/30, Ser. B	A3/A	13,776,595
			15,248,735
	Tennessee 0.7%		
1,750	Claiborne Cnty. Industrial Dev. Board Rev., Lincoln Memorial Univ. Project, 6.625%, 10/1/39	NR/NR	1,771,542
1,000	Johnson City Health & Educational Facs. Board Rev., Mountain States Health Alliance, 6.00%, 7/1/38	Baa1/BBB+	933,020
500	Sullivan Cnty. Health Educational & Housing Facs. Board Rev., Wellmont Health Systems Project, 5.25%, 9/1/36, Ser. C	NR/BBB+	430,650

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Tennessee (continued)		
	Tennessee Energy Acquisition Corp. Rev.,		
$ 3,000	5.00%, 2/1/23, Ser. C	Baa3/BBB	$ 2,924,790
700	5.25%, 9/1/21, Ser. A	Ba3/B	678,104
700	5.25%, 9/1/22, Ser. A	Ba3/B	685,405
			7,423,511
	Texas 12.2%		
130	Aubrey Independent School Dist., GO,		
	5.50%, 2/15/33 (PSF-GTD)	Aaa/NR	135,597
6,500	Brazos Cnty. Health Facs. Dev. Corp. Rev., 5.375%, 1/1/32	NR/A	6,093,360
2,500	Dallas Rev., Dallas Civic Center, 5.25%, 8/15/38 (AGC)	Aa3/AA+	2,544,800
	Harris Cnty. Cultural Education Facs. Finance Corp. Rev.,		
	Texas Children s Hospital Project,		
3,750	5.25%, 10/1/29	Aa2/AA	3,887,925
12,700	5.50%, 10/1/39	Aa2/AA	12,868,148
700	HFDC of Central Texas, Inc. Rev.,		
	Village at Gleannloch Farms, 5.50%, 2/15/37, Ser. A	NR/NR	479,234
	North Harris Cnty. Regional Water Auth. Rev.,		
10,300	5.25%, 12/15/33	A1/A+	10,603,026
10,300	5.50%, 12/15/38	A1/A+	10,665,547
	North Texas Tollway Auth. Rev.,		
5,250	4.75%, 1/1/29 (FGIC-NPFGC)	A2/A	5,121,480
1,300	5.50%, 9/1/41, Ser. A	NR/AA	1,372,865
5,000	5.625%, 1/1/33, Ser. B	A2/A	5,080,700
1,200	5.75%, 1/1/33, Ser. F	A3/BBB+	1,207,764
1,250	6.25%, 1/1/39, Ser. A	A2/A	1,293,313
2,000	Sabine River Auth. Pollution Control Rev., 5.20%, 5/1/28, Ser. C	Ca/NR	654,780
10,000	San Antonio Electric & Gas Systems Rev., 5.00%, 2/1/32 (i)	Aa1/AA	10,348,400
250	San Juan Higher Education Finance Auth. Rev.,		
	6.70%, 8/15/40, Ser. A	NR/BBB	253,562
	State, Mobility Fund, GO (i),		
10,025	4.75%, 4/1/35, Ser. A	Aaa/AA+	10,108,107
17,500	4.75%, 4/1/36	Aaa/AA+	17,641,575
1,000	State Public Finance Auth. Rev.,		
	Charter School Finance Corp., 5.875%, 12/1/36, Ser. A	Baa3/BBB	860,770
8,880	State Turnpike Auth. Rev., 5.00%, 8/15/42, Ser. A (AMBAC)	Baa1/BBB+	7,930,284
3,000	Tarrant Cnty. Cultural Education Facs. Finance Corp. Rev.,		
	Baylor Health Care Systems Project, 6.25%, 11/15/29	Aa2/AA	3,255,990
	Texas Municipal Gas Acquisition & Supply Corp. I Rev.,		
450	5.25%, 12/15/25, Ser. A	A2/A	423,045
15,300	6.25%, 12/15/26, Ser. D	A2/A	16,240,491
1,000	Wise Cnty. Rev., Parker Cnty Junior College Dist.,		
	8.00%, 8/15/34	NR/NR	1,015,110
			130,085,873
	Virginia 0.3%		
1,000	Fairfax Cnty. Industrial Dev. Auth. Rev.,		
	Inova Health Systems, 5.50%, 5/15/35, Ser. A	Aa2/AA+	1,021,910
1,000	Henrico Cnty. Economic Dev. Auth. Rev.,		
	Bon Secours Health System, 4.50%, 11/1/42, Ser. B 1 (AGC)	Aa3/AA+	876,820

PIMCO Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Virginia (continued)		
$ 2,050	James City Cnty. Economic Dev. Auth. Rev., United Methodist Homes, 5.50%, 7/1/37, Ser. A	NR/NR	$ 1,180,492
			3,079,222
	Washington 1.4%		
1,300	Health Care Facs. Auth. Rev., Multicare Health Systems, 6.00%, 8/15/39, Ser. B (AGC)	Aa3/AA+	1,360,645
1,000	Seattle Cancer Care Alliance, 7.375%, 3/1/38	A3/NR	1,086,630
13,000	Virginia Mason Medical Center, 6.125%, 8/15/37, Ser. A	Baa2/BBB	12,388,870
			14,836,145
	West Virginia 0.2%		
2,000	Hospital Finance Auth. Rev., Highland Hospital, 9.125%, 10/1/41	NR/NR	2,035,840
	Wisconsin 0.1%		
	Health & Educational Facs. Auth. Rev.,		
90	Froedert & Community Health, 5.375%, 10/1/30	NR/AA	90,261
1,000	Prohealth Care, Inc., 6.625%, 2/15/39	A1/A+	1,056,900
			1,147,161
	Total Municipal Bonds & Notes (cost $1,036,312,122)		1,024,866,740
VARIABLE RATE NOTES (f) **3.0%**			
	California 0.4%		
5,000	Health Facs. Financing Auth. Rev., 7.98%, 11/15/36, Ser. 3193 (a)(c)(e)	NR/NR	4,371,100
	Florida 0.2%		
1,830	Highlands Cnty. Health Facs. Auth. Rev., Adventist Health System, 5.00%, 11/15/31, Ser. C	Aa3/AA	1,800,025
	Illinois 1.3%		
6,000	Chicago, GO, 9.82%, 1/1/34, Ser. 3190 (a)(c)(e)	NR/NR	5,316,000
	Metropolitan Pier & Exposition Auth. Rev.,		
4,500	8.34%, 6/15/50, Ser. 3217 (a)(c)(e)	NR/AAA	3,824,640
5,000	State, GO, 8.14%, 4/1/27, Ser. 783 (AGC) (a)(c)(e)	Aa3/NR	5,008,100
			14,148,740
	Texas 0.9%		
3,335	JPMorgan Chase Putters/Drivers Trust Rev., 11.518%, 5/15/18, Ser. 3709 (a)(c)(e)	NR/AAA	3,744,705
5,365	State, GO, 7.54%, 4/1/37, Ser. 3197 (a)(c)(e)	NR/NR	5,400,194
			9,144,899
	West Virginia 0.2%		
2,000	Economic Dev. Auth. Rev., Appalachia Power, 5.375%, 12/1/38, Ser. A	Baa2/BBB	1,945,440
	Total Variable Rate Notes (cost $33,641,730)		31,410,204
SHORT-TERM INVESTMENTS 0.6%			
	U.S. Treasury Obligations (g)(k) **0.6%**		
6,797	U.S. Treasury Bills, 0.015%-0.161%, 8/11/11-9/15/11 (cost $6,795,561)		6,795,561
	Total Investments (cost $1,076,749,413) **100.0%**		**$ 1,063,072,505**

PIMCO California Municipal Income Fund II **Schedule of Investments**
May 31, 2011

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
CALIFORNIA MUNICIPAL BONDS & NOTES 88.6%			
$ 2,000	Alhambra Rev., Atherton Baptist Homes, 7.625%, 1/1/40, Ser. A	NR/NR	$ 2,047,120
	Bay Area Toll Auth. Rev., San Francisco Bay Area, Ser. F-1,		
5,000	5.00%, 4/1/34	Aa3/AA	5,048,600
20,000	5.00%, 4/1/39 (i)	Aa3/AA	20,021,600
1,000	Chula Vista Rev., San Diego Gas & Electric, 5.875%, 2/15/34, Ser. B	Aa3/A+	1,061,810
300	City & Cnty. of San Francisco, Capital Improvement Projects, CP, 5.25%, 4/1/31, Ser. A	A1/AA	303,045
1,410	Community College Financing Auth. Rev., 5.00%, 8/1/27, Ser. A (AMBAC)	WR/NR	1,368,828
9,565	Coronado Community Dev. Agcy., Tax Allocation, 4.875%, 9/1/35 (AMBAC)	NR/AA	8,349,958
1,110	CoronA Norco Unified School Dist. No. 98-1, Special Tax, 5.10%, 9/1/25 (AMBAC)	WR/NR	1,032,122
	CoronA Norco Unified School Dist. Public Financing Auth., Special Tax, Ser. A,		
305	5.65%, 9/1/16	NR/NR	307,812
160	5.75%, 9/1/17	NR/NR	160,726
530	6.00%, 9/1/20	NR/NR	532,523
1,000	6.00%, 9/1/25	NR/NR	1,003,690
4,150	6.10%, 9/1/32	NR/NR	4,020,022
3,000	Dinuba Financing Auth. Rev., Public Works Projects, 5.10%, 8/1/32 (NPFGC)	Baa1/A	3,062,940
8,300	El Dorado Irrigation Dist. & El Dorado Water Agcy., CP, 5.75%, 8/1/39, Ser. A (AGC)	Aa3/AA+	8,416,366
1,500	Foothill-Eastern Transportation Corridor Agcy. Rev., 5.875%, 1/15/27 (IBC-NPFGC)	Baa1/BBB	1,428,510
1,440	Fremont Community Facs. Dist. No. 1, Special Tax, Pacific Commons, 5.30%, 9/1/30	NR/NR	1,312,402
	Golden State Tobacco Securitization Corp. Rev.,		
13,885	5.00%, 6/1/45 (AMBAC-TCRS)	A2/BBB+	11,763,927
1,500	5.00%, 6/1/45, Ser. A	A2/BBB+	1,270,860
6,000	5.00%, 6/1/45, Ser. A (FGIC-TCRS)	A2/BBB+	5,083,440
8,500	5.125%, 6/1/47, Ser. A 1	Baa3/BB+	5,249,770
22,415	5.75%, 6/1/47, Ser. A 1	Baa3/BB+	15,416,813
500	Hartnell Community College Dist., GO, zero coupon, 8/1/34, Ser. 2002-D (j)	Aa2/AA	254,550
	Health Facs. Financing Auth. Rev., Adventist Health System, Ser. A,		
500	5.00%, 3/1/33	NR/A	448,495
250	5.75%, 9/1/39	NR/A	245,185
3,000	Catholic Healthcare West, 6.00%, 7/1/39, Ser. A	A2/A	3,063,300
1,200	Children s Hospital of Los Angeles, 5.25%, 7/1/38 (AGM)	Aa3/AA+	1,113,432
500	Children s Hospital of Orange Cnty., 6.50%, 11/1/38, Ser. A	NR/A	520,640
2,000	Sutter Health, 5.00%, 11/15/42, Ser. A (IBC-NPFGC)	Aa3/AA	1,803,160
175	Infrastructure & Economic Dev. Bank Rev., 5.25%, 2/1/38	A1/A+	168,194
1,000	Irvine Unified School Dist., Special Tax, 6.70%, 9/1/35	NR/NR	1,031,110

PIMCO California Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
$ 1,000	Lancaster Redev. Agcy., Tax Allocation, 6.875%, 8/1/39	NR/BBB+	$ 977,380
500	Lancaster Redev. Agcy. Rev., Capital Improvements Projects, 5.90%, 12/1/35	NR/A	443,435
5,300	Livermore-Amador Valley Water Management Agcy. Rev., 5.00%, 8/1/31, Ser. A (AMBAC)	Aa2/NR	5,300,159
7,500	Long Beach Bond Finance Auth. Rev., Long Beach Natural Gas, 5.50%, 11/15/37, Ser. A	A2/A	7,033,875
10,000	Long Beach Unified School Dist., GO, 5.25%, 8/1/33, Ser. A (i)	Aa2/AA	10,423,700
	Los Angeles, Equipment & Real Property Project, CP,		
4,895	5.00%, 2/1/27, Ser. T (NPFGC)	A1/A+	4,906,650
2,685	5.00%, 10/1/27, Ser. AU (NPFGC)	A2/A+	2,699,553
10,000	Los Angeles Community College Dist., GO, 5.00%, 8/1/33, Ser. F-1 (i)	Aa1/AA	10,035,200
	Los Angeles Department of Water & Power Rev.,		
15,000	4.75%, 7/1/30, Ser. A 2 (AGM) (i)	Aa3/AA+	15,143,400
15,950	5.125%, 7/1/41, Ser. A (FGIC-NPFGC-TCRS)	Aa2/AA	15,973,128
11,000	Los Angeles Unified School Dist., GO, 5.00%, 1/1/34, Ser. I	Aa2/AA	11,006,820
10,000	Manteca Redev. Agcy., Tax Allocation, 5.00%, 10/1/36 (AMBAC)	WR/A	7,815,500
5,330	Manteca Unified School Dist. No. 89-2, Special Tax, 5.00%, 9/1/29, Ser. C (NPFGC)	Baa1/BBB	5,332,772
4,000	Merced Cnty., Juvenile Justice Correctional Fac., CP, 5.00%, 6/1/32 (AMBAC)	A1/NR	4,021,920
5,000	Metropolitan Water Dist. of Southern California Rev., 5.00%, 7/1/37, Ser. A (i)	Aa1/AAA	5,107,450
4,700	Moreno Valley Unified School Dist. Community Facs. Dist. No. 2004-6, Special Tax, 5.20%, 9/1/36	NR/NR	3,896,065
1,400	M-S-R Energy Auth. Rev., 6.50%, 11/1/39, Ser. B	NR/A	1,531,432
1,300	Municipal Finance Auth. Rev., Azusa Pacific Univ. Project, 7.75%, 4/1/31, Ser. B	NR/NR	1,337,115
5,000	Oakland Unified School Dist., Alameda Cnty., GO, 6.125%, 8/1/29, Ser. A	A2/NR	5,117,050
4,750	Palomar Pomerado Health, CP, 6.75%, 11/1/39	Baa3/NR	4,673,002
10,000	PlacentiA Yorba Linda Unified School Dist., CP, 5.00%, 10/1/32 (FGIC-NPFGC)	A1/A+	9,643,500
1,500	Pollution Control Financing Auth. Rev., American Water Capital Corp. Project, 5.25%, 8/1/40 (a)(c)	Baa2/BBB+	1,426,920
3,000	Riverside, CP, 5.00%, 9/1/33 (AMBAC)	WR/A+	2,632,350
	Riverside Unified School Dist. Community Facs. School Dist. No. 15, Special Tax, Ser. A,		
1,000	5.25%, 9/1/30	NR/NR	858,840
1,000	5.25%, 9/1/35	NR/NR	822,110
	Roseville Redev. Agcy., Tax Allocation, Ser. B (NPFGC),		
2,230	5.00%, 9/1/27	A2/A	1,914,054
3,365	5.00%, 9/1/32	A2/A	2,775,620

PIMCO California Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	San Diego Public Facs. Financing Auth. Rev.,		
$ 11,000	5.00%, 8/1/32 (NPFGC)	Aa3/A+	$ 11,020,130
4,000	5.25%, 8/1/38, Ser. A	Aa2/AA	4,042,520
1,000	5.25%, 5/15/39, Ser. A	Aa3/A+	1,022,130
1,500	Fire & Life Safety Facs. Project, 5.00%, 4/1/32, Ser. B (NPFGC)	A2/A	1,374,825
2,800	San Diego Regional Building Auth. Rev.,		
	Cnty. Operations Center & Annex, 5.375%, 2/1/36, Ser. A	Aa3/AA+	2,857,008
2,800	San Diego Unified School Dist., GO,		
	4.75%, 7/1/27, Ser. D-2 (AGM)	Aa1/AA+	2,817,528
1,000	San Jose Rev., Convention Center Expansion, 6.50%, 5/1/36	A2/A	1,021,900
1,260	Santa Cruz Cnty., CP, 5.25%, 8/1/32	A1/NR	1,291,954
1,500	Santa Cruz Cnty. Redev. Agcy., Tax Allocation,		
	Live Oak/Soquel Community, 7.00%, 9/1/36, Ser. A	A1/A	1,556,760
	State, GO,		
2,500	5.00%, 9/1/31	A1/A	2,513,550
7,000	5.00%, 4/1/38	A1/A	6,768,720
11,000	6.00%, 4/1/38	A1/A	11,770,550
	State Public Works Board Rev.,	A2/BBB+	3,053,310
3,000	5.75%, 10/1/30, Ser. G-1		
2,000	California State Univ., 6.00%, 11/1/34, Ser. J	Aa3/BBB+	2,051,620
7,915	Regents Univ., 5.00%, 3/1/33, Ser. A	Aa2/AA	7,811,076
	Statewide Communities Dev. Auth. Rev.,		
	Bentley School (a)(b)(l),		
11,180	zero coupon, 7/1/50		
	(acquisition cost $400,132; purchased 6/24/10)	NR/NR	294,258
3,760	7.00%, 7/1/40, Ser. A		
	(acquisition cost $3,645,621; purchased 6/24/10)	NR/NR	3,122,266
	Catholic Healthcare West,		
1,800	5.50%, 7/1/31, Ser. D	A2/A	1,795,572
1,800	5.50%, 7/1/31, Ser. E	A2/A	1,795,572
	Huntington Park Charter School Project, Ser. A,		
250	5.15%, 7/1/30	NR/NR	196,615
1,250	5.25%, 7/1/42	NR/NR	921,162
500	International School of the Peninsula Project, 5.00%, 11/1/29	NR/NR	362,805
2,770	Kaiser Permanente, 5.50%, 11/1/32, Ser. A	WR/A+	2,728,755
1,000	Lancer Student Housing Project, 7.50%, 6/1/42	NR/NR	1,008,940
9,700	Los Angeles Jewish Home, 5.50%, 11/15/33 (CA St. Mtg.)	NR/A	9,613,282
	Methodist Hospital Project (FHA),		
2,400	6.625%, 8/1/29	Aa2/NR	2,732,640
8,800	6.75%, 2/1/38	Aa2/NR	9,783,488
3,700	St. Joseph Health System, 5.75%, 7/1/47, Ser. A (FGIC)	A1/AA	3,622,670
	Sutter Health, Ser. A,		
5,500	5.00%, 11/15/43	Aa3/AA	4,986,300
5,600	6.00%, 8/15/42	Aa3/AA	5,857,096
1,365	Windrush School, 5.50%, 7/1/37	NR/NR	983,141
1,450	Statewide Financing Auth. Tobacco Settlement Rev.,		
	5.625%, 5/1/29, Ser. A	Baa3/NR	1,315,368

PIMCO California Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
	Tobacco Securitization Agcy. Rev.,		
$ 4,500	Alameda Cnty., 6.00%, 6/1/42	Baa3/NR	$ 3,337,695
1,800	Stanislaus Cnty., 5.875%, 6/1/43, Ser. A	Baa3/NR	1,306,926
3,100	Torrance Rev., Memorial Medical Center, 5.00%, 9/1/40, Ser. A	A2/A+	2,752,366
1,000	Tustin Unified School Dist., Special Tax,		
	6.00%, 9/1/40, Ser. 2006-1	NR/BBB	925,010
	Univ. of California Rev.,		
5,500	4.75%, 5/15/35, Ser. F (AGM) (i)	Aa1/AA+	5,257,340
5,000	4.75%, 5/15/35, Ser. G (FGIC-NPFGC) (i)	Aa1/AA	4,779,400
5,650	4.75%, 5/15/38, Ser. B	Aa2/AA	5,283,484
10,000	Ventura Cnty. Community College Dist., GO,		
	5.00%, 8/1/27, Ser. A (NPFGC) (i)	Aa2/AA	10,082,800
	Total California Municipal Bonds & Notes (cost $383,779,011)		395,578,482
CALIFORNIA VARIABLE RATE NOTES (a)(c)(f) **5.2%**			
6,035	Desert Community College Dist., GO,		
	7.98%, 8/1/32, Ser. 3016-1 (AGC) (e)	NR/AA+	6,107,420
7,500	JPMorgan Chase Putters/Drivers Trust Rev.,		
	7.977%, 5/15/40, Ser. 3838 (e)	Aa3/NR	7,657,950
4,000	Los Angeles Community College Dist., GO,		
	11.65%, 8/1/33, Ser. 3096 (e)	NR/AA	4,041,600
5,000	San Diego Community College Dist., GO, 9.896%, 2/1/17	NR/AA+	5,204,150
	Total California Variable Rate Notes (cost $22,331,269)		23,011,120
OTHER MUNICIPAL BONDS & NOTES 4.2%			
	New Jersey 0.6%		
	Tobacco Settlement Financing Corp. Rev., Ser. 1-A,		
1,300	4.75%, 6/1/34	Baa3/BB+	827,775
3,000	5.00%, 6/1/41	Baa3/BB	1,915,830
			2,743,605
	New York 0.7%		
1,250	Liberty Dev. Corp. Rev., Goldman Sachs Headquarters,		
	5.25%, 10/1/35	A1/A	1,249,900
1,900	New York City Municipal Water Finance Auth.		
	Water & Sewer Rev.,		
	5.00%, 6/15/37, Ser. D (i)	Aa1/AAA	1,929,754
			3,179,654
	Ohio 0.3%		
2,250	Buckeye Tobacco Settlement Financing Auth. Rev.,		
	5.875%, 6/1/47, Ser. A 2	Baa3/BB	1,541,070
	Puerto Rico 0.4%		
1,600	Sales Tax Financing Corp. Rev., 5.00%, 8/1/40, Ser. A (AGM) (i)	Aa3/AA+	1,552,128
	Rhode Island 2.2%		
11,000	Tobacco Settlement Financing Corp. Rev.,		
	6.25%, 6/1/42, Ser. A	Baa3/BBB	9,625,330
	Total Other Municipal Bonds & Notes (cost $17,977,933)		18,641,787

PIMCO California Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
SHORT-TERM INVESTMENTS 2.0%			
	U.S. Treasury Obligations (g)(k) **1.2%**		
$ 5,389	U.S. Treasury Bills, 0.015%-0.159%, 8/11/11-9/15/11 (cost $5,388,310)		$ 5,388,310
	Corporate Notes 0.8%		
	Financial Services 0.8%		
3,540	International Lease Finance Corp., 5.40%, 2/15/12 (h) (cost $3,292,369)	B1/BBB-	3,646,200
	Total Short-Term Investments (cost $8,680,679)		9,034,510
	Total Investments (cost $432,768,892) **100.0%**		**$ 446,265,899**

PIMCO New York Municipal Income Fund II **Schedule of Investments**
May 31, 2011

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
NEW YORK MUNICIPAL BONDS & NOTES 89.5%			
$ 1,000	Chautauqua Cnty. Industrial Dev. Agcy. Rev., Dunkirk Power Project, 5.875%, 4/1/42	Baa3/BB+	$ 951,510
2,400	Erie Cnty. Industrial Dev. Agcy. Rev., Orchard Park, Inc. Project, 6.00%, 11/15/36, Ser. A	NR/NR	1,715,976
	Liberty Dev. Corp. Rev.,		
1,400	5.625%, 7/15/47	NR/A	1,407,014
1,300	6.375%, 7/15/49	NR/BBB	1,327,066
	Goldman Sachs Headquarters,		
3,000	5.25%, 10/1/35	A1/A	2,999,760
4,120	5.25%, 10/1/35 (i)	A1/A	4,119,670
3,500	5.50%, 10/1/37	A1/A	3,588,410
500	Long Island Power Auth. Rev., 5.00%, 9/1/34, Ser. A (AMBAC)	A3/A	503,830
	Metropolitan Transportation Auth. Rev.,		
1,850	5.00%, 11/15/30, Ser. A (AGM)	Aa3/AA+	1,855,069
2,000	5.00%, 11/15/34, Ser. B	NR/AA	2,042,800
7,300	5.25%, 11/15/31, Ser. E	A2/A	7,336,135
7,000	5.35%, 7/1/31, Ser. B	Aa3/AA	7,051,380
5,000	5.50%, 11/15/39, Ser. A	NR/AA	5,220,100
7,000	Monroe Cnty. Industrial Dev. Corp. Rev., Unity Hospital Rochester Project, 5.50%, 8/15/40 (FHA) (i)	Aa2/AA	7,211,610
2,870	Mortgage Agcy. Rev., 4.75%, 10/1/27, Ser. 128	Aa1/NR	2,877,491
2,400	Nassau Cnty. Industrial Dev. Agcy. Rev., Amsterdam at Harborside, 6.70%, 1/1/43, Ser. A	NR/NR	2,155,632
4,000	New York City, GO, 5.00%, 3/1/33, Ser. I	Aa2/AA	4,034,920
1,500	New York City Health & Hospital Corp. Rev., 5.00%, 2/15/30, Ser. A	Aa3/A+	1,501,980
	New York City Industrial Dev. Agcy. Rev.,		
975	Eger Harbor Project, 4.95%, 11/20/32, Ser. A (GNMA)	NR/AAA	977,750
1,415	Liberty Interactive Corp., 5.00%, 9/1/35	Ba2/BB+	1,250,082
1,500	Queens Baseball Stadium, 6.50%, 1/1/46 (AGC)	Aa3/AA+	1,545,045
1,170	Staten Island Univ. Hospital Project, 6.45%, 7/1/32, Ser. C	Baa3/NR	1,172,176
1,500	United Jewish Appeal Federation Project, 5.00%, 7/1/27, Ser. A	Aa1/NR	1,545,615
	Yankee Stadium,		
750	5.00%, 3/1/31 (FGIC)	Baa3/BBB	695,738
2,400	5.00%, 3/1/36 (NPFGC)	Baa1/BBB	2,129,064
4,900	7.00%, 3/1/49 (AGC)	Aa3/AA+	5,426,260
	New York City Municipal Water Finance Auth. Water & Sewer Rev.,		
1,500	5.25%, 6/15/40, Ser. EE	Aa2/AA+	1,555,665
500	Second Generation Resolutions, 5.00%, 6/15/39, Ser. GG-1	Aa2/AA+	511,950
	New York City Transitional Finance Auth. Rev.,		
6,000	5.00%, 11/1/27, Ser. B	Aaa/AAA	6,241,440
5,000	5.25%, 1/15/39, Ser. S-3	Aa3/AA	5,129,000
2,700	New York City Trust for Cultural Res. Rev., Julliard School, 5.00%, 1/1/34, Ser. A	Aa2/AA	2,796,309
6,785	Wildlife Conservation Society, 5.00%, 2/1/34 (FGIC-NPFGC)	Aa3/AA	6,828,220

PIMCO New York Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
$ 3,600	Port Auth. of New York & New Jersey Rev.,		
	5.00%, 4/15/32, Ser. 125 (AGM)	Aa2/AA+	$ 3,654,792
1,400	JFK International Air Terminal, 6.00%, 12/1/36	Baa3/BBB	1,413,104
	State Dormitory Auth. Rev.,		
3,000	5.00%, 3/15/38, Ser. A	NR/AAA	3,071,640
7,490	5.50%, 5/15/31, Ser. A (AMBAC)	Aa3/AA	8,117,737
2,600	Catholic Health of Long Island, 5.10%, 7/1/34	A3/A	2,458,040
1,500	Fordham Univ., 5.50%, 7/1/36, Ser. A	A2/A	1,558,740
2,000	Kaleida Health Hospital, 5.05%, 2/15/25 (FHA)	NR/NR	2,053,640
5,300	Lenox Hill Hospital, 5.50%, 7/1/30	Baa3/NR	5,189,495
1,320	Long Island Univ., 5.25%, 9/1/28 (Radian)	Baa3/NR	1,320,356
	Memorial Sloan-Kettering Cancer Center,		
2,750	5.00%, 7/1/35, Ser. 1	Aa2/AA	2,767,022
2,000	5.00%, 7/1/36, Ser. A 1	Aa2/AA	2,015,340
2,100	New York Univ., 5.00%, 7/1/38, Ser. A	Aa3/AA	2,136,225
1,000	New York Univ. Hospital Center, 5.625%, 7/1/37, Ser. B	Baa1/BBB+	972,640
5,850	North General Hospital, 5.00%, 2/15/25	NR/AA	5,865,620
600	North Shore-Long Island Jewish Health System,		
	5.50%, 5/1/37, Ser. A	Baa1/A	592,620
5,000	Rochester General Hospital, 5.00%, 12/1/35 (Radian)	WR/NR	4,510,500
	Teachers College,		
4,270	5.00%, 7/1/32 (NPFGC)	A1/NR	4,295,193
3,000	5.50%, 3/1/39	A1/NR	3,083,460
1,000	The New School, 5.50%, 7/1/40	A3/A	1,035,350
3,000	Yeshiva Univ., 5.125%, 7/1/34 (AMBAC)	Aa3/NR	3,054,090
5,000	State Environmental Facs. Corp. Rev., 5.125%, 6/15/38, Ser. A	Aa1/AA+	5,147,500
1,000	State Thruway Auth. Rev., 4.75%, 1/1/29, Ser. G (AGM)	Aa3/AA+	1,008,810
6,000	State Urban Dev. Corp. Rev., 5.00%, 3/15/36, Ser. B 1 (i)	NR/AAA	6,155,100
	Triborough Bridge & Tunnel Auth. Rev.,		
710	5.00%, 1/1/32, Ser. A (FGIC-TCRS)	Aa2/AA	712,861
5,000	5.25%, 11/15/34, Ser. A 2 (i)	Aa2/AA	5,222,150
150	Troy Rev., Rensselaer Polytechnic Institute,		
	5.125%, 9/1/40, Ser. A	A3/A	148,306
850	TSACS, Inc. Rev., 5.125%, 6/1/42, Ser. 1	NR/BBB	565,140
1,815	Ulster Cnty. Industrial Dev. Agcy. Rev., 6.00%, 9/15/37, Ser. A	NR/NR	1,352,774
2,000	Warren & Washington Cntys. Industrial Dev. Agcy. Rev.,		
	Glens Falls Hospital Project, 5.00%, 12/1/35, Ser. A (AGM)	Aa3/AA+	2,004,640
1,490	Westchester Cnty. Healthcare Corp. Rev.,		
	6.125%, 11/1/37, Ser. C-2	A3/BBB	1,492,533
1,000	Yonkers Economic Dev. Corp. Rev., 6.00%, 10/15/30, Ser. A	NR/BB+	925,600
600	Yonkers Industrial Dev. Agcy. Rev.,		
	Sarah Lawrence College Project, 6.00%, 6/1/41, Ser. A	WR/BBB	608,352
	Total New York Municipal Bonds & Notes (cost $177,225,038)		180,214,037

PIMCO New York Municipal Income Fund II **Schedule of Investments**
May 31, 2011 (continued)

Principal Amount (000s)		Credit Rating (Moody s/S&P)*	Value
OTHER MUNICIPAL BONDS & NOTES 7.1%			
	Florida 1.0%		
$ 1,000	Clearwater Rev., 5.25%, 12/1/39, Ser. A	Aa3/AA	$ 1,036,740
1,000	Miami-Dade Cnty. Airport Rev., 5.50%, 10/1/36, Ser. A	A2/A	1,006,550
			2,043,290
	Louisiana 0.5%		
1,000	East Baton Rouge Sewerage Commission Rev., 5.25%, 2/1/39, Ser. A	Aa2/AA	1,038,890
	Ohio 0.5%		
1,435	Buckeye Tobacco Settlement Financing Auth. Rev., 5.875%, 6/1/47, Ser. A 2	Baa3/BB	982,860
	Puerto Rico 4.6%		
5,675	Children s Trust Fund Rev., 5.625%, 5/15/43	Baa3/BBB	4,390,975
	Sales Tax Financing Corp. Rev., Ser. A,		
14,250	zero coupon, 8/1/54 (AMBAC)	Aa2/AA	804,982
2,000	5.00%, 8/1/40 (AGM) (i)	Aa3/AA+	1,940,160
1,000	5.50%, 8/1/42	A1/A+	985,250
1,000	5.75%, 8/1/37	A1/A+	1,014,860
			9,136,227
	U. S. Virgin Islands 0.5%		
1,000	Public Finance Auth. Rev., 6.00%, 10/1/39, Ser. A	Baa3/NR	1,007,710
	Total Other Municipal Bonds & Notes (cost $15,965,600)		14,208,977
NEW YORK VARIABLE RATE NOTES (a)(c)(e)(f) **2.9%**			
	JPMorgan Chase Putters/Drivers Trust Rev.,		
5,000	7.924%, 7/1/33, Ser. 3382	Aa1/NR	5,336,250
500	8.37%, 6/15/31, Ser. 3223	NR/AA+	566,285
	Total New York Variable Rate Notes (cost $5,393,887)		5,902,535
SHORT-TERM INVESTMENTS 0.5%			
	U.S. Treasury Obligations (g)(k) **0.5%**		
	U.S. Treasury Bills,		
970	0.103%, 9/15/11 (cost $969,737)		969,737
	Total Investments (cost $199,554,262) **100.0%**		**$ 201,295,286**

PIMCO Municipal Income Funds II **Notes to Schedule of Investments**

May 31, 2011

* Unaudited.

(a) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate value of $33,898,320, representing 3.2% of total investments in Municipal Income II, $27,854,564, representing 6.2% of total investments in California Municipal II and $5,902,535, representing 2.9% of total investments in New York Municipal II.

(b) Illiquid.

(c) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.

(d) In default.

(e) Inverse Floater The interest rate shown bears an inverse relationship to the interest rate on another security or the value of an index. The interest rate disclosed reflects the rate in effect on May 31, 2011.

(f) Variable Rate Notes Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate). The interest rate disclosed reflects the rate in effect on May 31, 2011.

(g) All or partial amount segregated for the benefit of the counterparty as collateral for derivatives.

(h) All or partial amount segregated for the benefit of the counterparty as collateral for reverse repurchase agreements.

(i) Residual Interest Bonds held in Trust Securities represent underlying bonds transferred to a separate securitization trust established in a tender option bond transaction in which each Fund acquired the residual interest certificates. These securities serve as collateral in a financing transaction.

(j) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.

(k) Rates reflect the effective yields at purchase date.

(l) Restricted. The aggregate acquisition cost of such securities is $4,045,753 in California Municipal II. The aggregate market value is $3,416,524, representing 0.8% of total investments in California Municipal II.

Glossary:

AGC insured by Assured Guaranty Corp.
AGM insured by Assured Guaranty Municipal Corp.
AMBAC insured by American Municipal Bond Assurance Corp.
CA St. Mtg. insured by California State Mortgage
CP Certificates of Participation
FGIC insured by Financial Guaranty Insurance Co.
FHA insured by Federal Housing Administration
GNMA insured by Government National Mortgage Association
GO General Obligation Bond
GTD Guaranteed
IBC Insurance Bond Certificate
NPFGC insured by National Public Finance Guarantee Corp.
NR Not Rated
PSF Public School Fund
Radian insured by Radian Guaranty, Inc.
TCRS Temporary Custodian Receipts
WR Withdrawn Rating

PIMCO Municipal Income Funds II **Statements of Assets and Liabilities**
May 31, 2011

	Municipal II	California Municipal II	New York Municipal II
Assets:			
Investments, at value (cost $1,076,749,413, $432,768,892 and $199,554,262, respectively)	$ 1,063,072,505	$446,265,899	$ 201,295,286
Cash			342,698
Interest receivable	19,757,224	7,812,848	2,946,449
Swap premiums paid	449,410		
Receivable for investments sold	158,987		
Prepaid expenses and other assets	48,579	42,941	21,381
Total Assets	1,083,486,705	454,121,688	204,605,814
Liabilities:			
Payable for floating rate notes issued	91,469,472	46,820,833	13,851,894
Unrealized depreciation on swaps	6,850,035	4,176,010	1,153,882
Dividends payable to common and preferred shareholders	3,934,553	1,965,053	719,193
Payable to custodian for cash overdraft	1,562,960	521,064	
Swap premiums received	770,800	652,750	232,594
Investment management fees payable	535,607	216,379	103,552
Interest payable	220,627	105,762	19,995
Payable for reverse repurchase agreements		3,294,000	
Interest payable for reverse repurchase agreements		833	
Accrued expenses and other liabilities	343,133	1,883,183	268,427
Total Liabilities	105,687,187	59,635,867	16,349,537
Preferred Shares ($0.00001 par value and $25,000 liquidation preference per share applicable to an aggregate of 14,680, 6,520 and 3,160 shares issued and outstanding, respectively)	367,000,000	163,000,000	79,000,000
Net Assets Applicable to Common Shareholders	$610,799,518	$231,485,821	$ 109,256,277
Composition of Net Assets Applicable to Common Shareholders:			
Common Shares:			
Par value ($0.00001 per share)	$ 603	$ 314	$ 108
Paid-in-capital in excess of par	853,155,068	432,085,969	152,567,497
Undistributed (dividends in excess of) net investment income	15,462,847	(1,965,053)	1,959,285
Accumulated net realized loss on investments and swaps	(237,289,807)	(208,107,449)	(45,879,324)
Net unrealized appreciation (depreciation) of investments and swaps	(20,529,193)	9,472,040	608,711
Net Assets Applicable to Common Shareholders	$610,799,518	$231,485,821	$ 109,256,277
Common Shares Issued and Outstanding	60,343,182	31,353,825	10,820,934
Net Asset Value Per Common Share	$10.12	$7.38	$10.10

PIMCO Municipal Income Funds II **Statements of Operations**
Year ended May 31, 2011

	Municipal II	California Municipal II	New York Municipal II
Investment Income:			
Interest	$63,071,493	$26,829,690	$11,224,912
Other income		2,136	
Total Investment Income	63,071,493	26,831,826	11,224,912
Expenses:			
Investment management fees	6,419,920	2,605,854	1,243,030
Interest expense	760,518	440,838	114,601
Auction agent fees and commissions	583,854	275,981	133,361
Custodian and accounting agent fees	164,457	98,267	61,475
Audit and tax services	100,773	63,792	45,608
Shareholder communications	98,803	64,099	35,642
Legal fees	95,867	18,625	10,785
Trustees fees and expenses	84,197	38,284	16,146
New York Stock Exchange listing fees	50,525	26,286	22,176
Transfer agent fees	37,045	36,690	34,703
Excise tax expense	35,550		
Insurance expense	26,848	11,502	5,801
Miscellaneous	16,551	15,751	12,706
Total Expenses	8,474,908	3,695,969	1,736,034
Less: custody credits earned on cash balances	(1,145)	(329)	(841)
Net Expenses	8,473,763	3,695,640	1,735,193
Net Investment Income	54,597,730	23,136,186	9,489,719
Realized and Change In Unrealized Gain (Loss):			
Net realized gain (loss) on:			
Investments	8,238,206	1,077,704	(579,506)
Swaps	(392,040)	(1,015,545)	(535,850)
Net change in unrealized appreciation/depreciation of:			
Investments	(45,827,779)	(17,815,338)	(6,937,248)
Swaps	(6,850,035)	(4,176,010)	(1,153,882)
Net realized and change in unrealized loss on investments and swaps	(44,831,648)	(21,929,189)	(9,206,486)
Net Increase in Net Assets Resulting from Investment Operations	9,766,082	1,206,997	283,233
Dividends on Preferred Shares from Net Investment Income	(1,520,460)	(689,435)	(329,688)
Net Increase (Decrease) in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	$8,245,622	$517,562	$(46,455)

PIMCO Municipal Income Funds II **Statements of Changes in Net Assets Applicable to Common Shareholders**

	Municipal II Year ended May 31, 2011	2010
Investment Operations:		
Net investment income	$54,597,730	$52,452,681
Net realized gain (loss) on investments and swaps	7,846,166	151,024
Net change in unrealized appreciation/depreciation of investments and swaps	(52,677,814)	103,180,602
Net increase in net assets resulting from investment operations	9,766,082	155,784,307
Dividends on Preferred Shares from Net Investment Income:	(1,520,460)	(1,651,157)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	8,245,622	154,133,150
Dividends to Common Shareholders from Net Investment Income:	(46,931,445)	(46,637,024)
Common Share Transactions:		
Reinvestment of dividends	3,896,483	4,046,441
Total increase (decrease) in net assets applicable to common shareholders	(34,789,340)	111,542,567
Net Assets Applicable to Common Shareholders:		
Beginning of year	645,588,858	534,046,291
End of year (including undistributed (dividends in excess of) net investment income of $15,462,847 and $9,284,682; $(1,965,053) and $(1,960,287); $1,959,285 and $1,108,502; respectively)	$ 610,799,518	$ 645,588,858
Common Shares Issued in Reinvestment of Dividends	373,938	400,876

PIMCO Municipal Income Funds II **Statement of Changes in Net Assets Applicable to Common Shareholders** (continued)

	California Municipal II Year ended May 31, 2011	California Municipal II Year ended May 31, 2010	New York Municipal II Year ended May 31, 2011	New York Municipal II Year ended May 31, 2010
Investment Operations:				
Net investment income	$23,136,186	$23,419,545	$9,489,719	$10,474,659
Net realized gain (loss) on investments and swaps	62,159	(2,327,882)	(1,115,356)	(770,215)
Net change in unrealized appreciation/depreciation of investments and swaps	(21,991,348)	23,246,648	(8,091,130)	13,497,488
Net increase in net assets resulting from investment operations	1,206,997	44,338,311	283,233	23,201,932
Dividends on Preferred Shares from Net Investment Income:	(689,435)	(777,175)	(329,688)	(363,065)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	517,562	43,561,136	(46,455)	22,838,867
Dividends to Common Shareholders from Net Investment Income:	(23,452,319)	(24,003,858)	(8,576,979)	(8,524,998)
Common Share Transactions:				
Reinvestment of dividends	1,604,973	1,843,810	718,710	721,255
Total increase (decrease) in net assets applicable to common shareholders	(21,329,784)	21,401,088	(7,904,724)	15,035,124
Net Assets Applicable to Common Shareholders:				
Beginning of year	252,815,605	231,414,517	117,161,001	102,125,877
End of year (including undistributed (dividends in excess of) net investment income of $15,462,847 and $9,284,682; $(1,965,053) and $(1,960,287); $1,959,285 and $1,108,502; respectively)	$231,485,821	$252,815,605	$109,256,277	$117,161,001
Common Shares Issued in Reinvestment of Dividends	183,513	220,172	67,458	68,673

PIMCO California Municipal Income Fund II **Statement of Cash Flows**
Year ended May 31, 2011

Decrease in Cash from:	
Cash Flows provided by Operating Activities:	
Net increase in net assets resulting from investment operations	$1,206,997
Adjustments to Reconcile Net Increase in Net Assets Resulting from Investment Operations to Net Cash provided by Operating Activities:	
Purchases of long-term investments	(69,437,484)
Proceeds from sales of long-term investments	82,948,991
Purchases of short-term portfolio investments, net	(387,732)
Net change in unrealized appreciation/depreciation of investments and swaps	22,070,382
Net realized gain on investments and swaps	(310,212)
Net amortization on investments	(991,317)
Increase in interest receivable	(631,996)
Decrease in prepaid expenses and other assets	1,203
Periodic and termination payments of swaps, net	(362,795)
Decrease in investment management fees payable	(12,858)
Decrease in interest payable for reverse repurchase agreements	(2,071)
Increase in accrued expenses and other liabilities	17,662
Net cash provided by operating activities*	34,108,770
Cash Flows used for Financing Activities:	
Decrease in payable for reverse repurchase agreements	(4,596,123)
Cash dividends paid (excluding reinvestment of dividends of $1,604,973)	(22,532,015)
Cash payments on retirement of floating rate notes	(7,502,889)
Increase in payable to custodian for cash overdraft	521,064
Net cash used for financing activities	(34,109,963)
Net decrease in cash	(1,193)
Cash at beginning of year	1,193
Cash at end of year	$0

Municipal II and New York Municipal II are not required to provide a Statement of Cash Flows.

* Included in operating expenses is cash paid by California Municipal II for interest related to participation in reverse repurchase agreement transactions of $27,009.

PIMCO Municipal Income Funds II Notes to Financial Statements
May 31, 2011

1. Organization and Significant Accounting Policies
PIMCO Municipal Income Fund II (Municipal II), PIMCO California Municipal Income Fund II (California Municipal II) and PIMCO New York Municipal Income Fund II (New York Municipal II), each a Fund and collectively referred to as the Funds or PIMCO Municipal Income Funds II , were organized as Massachusetts business trusts on March 29, 2002. Prior to commencing operations on June 28, 2002, the Funds had no operations other than matters relating to their organization and registration as non-diversified, closed-end management investment companies registered under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the Investment Manager and is an indirect, wholly-owned subsidiary of Allianz Global Investors of America L.P. (Allianz Global). Allianz Global is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. Each Fund has an unlimited amount of $0.00001 par value per share of common shares authorized.
Under normal market conditions, Municipal II invests substantially all of its assets in a portfolio of municipal bonds, the interest from which is exempt from federal income taxes. Under normal market conditions, California Municipal II invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal and California state income taxes. Under normal market conditions, New York Municipal II invests substantially all of its assets in municipal bonds which pay interest that is exempt from federal, New York State and New York City income taxes. There is no guarantee that the Funds will meet their stated objectives. The Funds will generally seek to avoid investing in bonds generating interest income which could potentially subject individuals to alternative minimum tax. The issuers abilities to meet their obligations may be affected by economic and political developments in a specific state or region.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in each Fund s financial statements. Actual results could differ from those estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations that provide general indemnifications. The Funds maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred.

The following is a summary of significant accounting policies consistently followed by the Funds:

(a) Valuation of Investments
Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services.
Portfolio securities and other financial instruments for which market quotations are not readily available, or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Funds investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold and these differences could be material to the Funds financial statements. Each Fund s net asset value (NAV) is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

(b) Fair Value Measurements
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.* the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

Level 1 quoted prices in active markets for identical investments that the Funds have the ability to access

Level 2 valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

1. Organization and Significant Accounting Policies (continued)

Level 3 valuations based on significant unobservable inputs (including each Funds own assumptions in determining the fair value of investments)

An investment asset s or liability s level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation technique used.

The valuation techniques used by the Funds to measure fair value during the year ended May 31, 2011 maximized the use of observable inputs and minimized the use of unobservable inputs.

The inputs or methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Funds generally use to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with Generally Accepted Accounting Principles (GAAP).

Municipal Bonds & Notes and Variable Rate Notes Municipal bonds and notes and variable rate notes are valued by independent pricing services based on pricing models that take into account, among other factors, information received from market makers and broker-dealers, current trades, bid-want lists, offerings, market movements, the callability of the bond, state of issuance, benchmark yield curves, and bond insurance. To the extent that these inputs are observable, the values of municipal bonds and notes and variable rate notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

U.S. Treasury Obligations U.S. Treasury obligations are valued by independent pricing services based on pricing models that evaluate the mean between the most recently quoted bid and ask price. The models also take into consideration data received from active market makers and broker-dealers, yield curves, and the spread over comparable U.S. Treasury issues. The spreads change daily in response to market conditions and are generally obtained from the new issue market and broker-dealer sources. To the extent that these inputs are observable, the values of U.S. Treasury obligations are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Corporate Bonds & Notes Corporate bonds and notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, live trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. The broker-dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds and sector-specific trends. To the extent that these inputs are observable, the values of corporate bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

Interest Rate Swaps Interest rate swaps are valued by independent pricing services using pricing models that are based on real-time intraday snapshots of relevant interest rate curves that are built using the most actively traded securities for a given maturity. The pricing models also incorporate cash and money market rates. In addition, market data pertaining to interest rate swaps is monitored regularly to ensure that interest rates are properly depicting the current market rate. To the extent that these inputs are observable, the values of interest rate swaps are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

The Funds policy is to recognize transfers between levels at the end of the reporting period.

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

1. Organization and Significant Accounting Policies (continued)

A summary of the inputs used at May 31, 2011 in valuing each Fund s assets and liabilities is listed below:

Municipal II:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 5/31/11
Investments in Securities Assets				
Municipal Bonds & Notes		$ 1,024,866,740		$ 1,024,866,740
Variable Rate Notes		31,410,204		31,410,204
Short-Term Investments		6,795,561		6,795,561
Total Investments in Securities Assets		$ 1,063,072,505		$ 1,063,072,505
Other Financial Instruments* Liabilities				
Interest Rate Contracts		$(6,850,035)		$(6,850,035)
Total Investments		$ 1,056,222,470		$ 1,056,222,470

California Municipal II:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 5/31/11
Investments in Securities Assets				
California Municipal Bonds & Notes		$395,578,482		$395,578,482
California Variable Rate Notes		23,011,120		23,011,120
Other Municipal Bonds & Notes		18,641,787		18,641,787
Short-Term Investments		9,034,510		9,034,510
Total Investments in Securities Assets		$446,265,899		$446,265,899
Other Financial Instruments* Liabilities				
Interest Rate Contracts		$ (4,176,010)		$ (4,176,010)
Total Investments		$442,089,889		$442,089,889

New York Municipal II:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 5/31/11
Investments in Securities Assets				
New York Municipal Bonds & Notes		$180,214,037		$180,214,037
Other Municipal Bonds & Notes		14,208,977		14,208,977
New York Variable Rate Notes		5,902,535		5,902,535
Short-Term Investments		969,737		969,737

Total Investments in Securities Assets	$201,295,286	$201,295,286
Other Financial Instruments* Liabilities		
Interest Rate Contracts	$ (1,153,882)	$ (1,153,882)
Total Investments	$200,141,404	$200,141,404

* Other financial instruments are derivatives not reflected in the Schedules of Investments, such as swap agreements, which are valued at the unrealized appreciation (depreciation) of the instrument.

There were no significant transfers between Levels 1 and 2 during the year ended May 31, 2011.

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

1. Organization and Significant Accounting Policies (continued)

(c) Investment Transactions and Investment Income
Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income adjusted for the accretion of discounts and amortization of premiums is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income over the lives of the respective securities.

(d) Federal Income Taxes
The Funds intend to distribute all of their taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Funds management has determined that its evaluation has resulted in no material impact to the Funds financial statements at May 31, 2011. The Funds federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

(e) Dividends and Distributions Common Shares
The Funds declare dividends from net investment income monthly to common shareholders. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions to their respective shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment. Temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to shareholders from return of capital.

(f) Reverse Repurchase Agreements
In a reverse repurchase agreement, the Funds sell securities to a bank or broker-dealer and agree to repurchase the securities at a mutually agreed upon date and price. Generally, the effect of such a transaction is that the Funds can recover and reinvest all or most of the cash invested in portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the returns associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Funds of the reverse repurchase transaction is less than the returns it obtains on investments purchased with the cash. To the extent the Funds do not cover its positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase commitment), the Funds uncovered obligations under the agreements will be subject to the Funds limitations on borrowings. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Funds are obligated to repurchase under the agreements may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Funds use of the proceeds of the agreement may be restricted pending determination by the other party, or their trustee or receiver, whether to enforce the Funds obligation to repurchase the securities.

(g) Inverse Floating Rate Transactions Residual Interest Municipal Bonds (RIBs) / Residual Interest Tax Exempt Bonds (RITEs)
The Funds invest in RIBs and RITEs (Inverse Floaters), whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. In inverse floating rate transactions, the Funds sell a fixed rate municipal bond (Fixed Rate Bond) to a broker who places the Fixed Rate Bond in a special purpose trust (Trust) from which floating rate bonds (Floating Rate Notes) and Inverse Floaters are issued. The Funds simultaneously, or within a short period of time, purchase the Inverse Floaters from the broker. The Inverse Floaters held by the Funds provide the Funds with the right to: (1) cause the holders of the Floating Rate Notes to tender their notes at par, and (2) cause the broker to transfer the Fixed-Rate Bond held by the Trust to the Funds, thereby collapsing the Trust. The Funds account for the transaction described above as a secured borrowing by including the Fixed Rate Bond in their Schedules of Investments, and account for the Floating Rate Notes as a liability under the caption Payable for floating rate notes issued in the Funds Statements of Assets and Liabilities. The Floating Rate Notes have interest rates that generally reset weekly and their holders have the option to tender their notes to the broker for redemption at par at each reset date.

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

1. Organization and Significant Accounting Policies (continued)

The Funds may also invest in Inverse Floaters without transferring a fixed rate municipal bond into a special purpose trust, which are not accounted for as secured borrowings. The Funds may also invest in Inverse Floaters for the purpose of increasing leverage.

The Inverse Floaters are created by dividing the income stream provided by the underlying bonds to create two securities, one short-term and one long-term. The interest rate on the short-term component is reset by an index or auction process typically every 7 to 35 days. After income is paid on the short-term securities at current rates, the residual income from the underlying bond(s) goes to the long-term securities. Therefore, rising short-term rates result in lower income for the long-term component and vice versa. The longer-term bonds may be more volatile and less liquid than other municipal bonds of comparable maturity. Investments in Inverse Floaters typically will involve greater risk than in an investment in Fixed Rate Bonds.

The Funds restrictions on borrowings do not apply to the secured borrowings deemed to have occurred for accounting purposes. Inverse Floaters held by the Funds are exempt from registration under Rule 144A of the Securities Act of 1933.

In addition to general market risks, the Funds investments in Inverse Floaters may involve greater risk and volatility than an investment in a fixed rate bond, and the value of Inverse Floaters may decrease significantly when market interest rates increase. Inverse Floaters have varying degrees of liquidity, and the market for these securities may be volatile. These securities tend to underperform the market for fixed rate bonds in a rising interest rate environment, but tend to outperform the market for fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, Inverse Floaters typically offer the potential for yields exceeding the yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Trusts in which Inverse Floaters may be held could be terminated due to market, credit or other events beyond the Funds control, which could require the Funds to reduce leverage and dispose of portfolio investments at inopportune times and prices.

(h) Restricted Securities
The Funds are permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expenses, and prompt sale at an acceptable price may be difficult.

(i) Custody Credits on Cash Balances
The Funds benefit from an expense offset arrangement with their custodian bank, whereby uninvested cash balances earn credits that reduce monthly custodian and accounting agent expenses. Had these cash balances been invested in income-producing securities, they would have generated income for the Funds. Cash overdraft charges, if any, are included in custodian and accounting agent fees.

(j) Interest Expense
Interest expense relates to the Funds participation in floating rate notes held by third parties in conjunction with Inverse Floater transactions and reverse repurchase agreement transactions. Interest expense on reverse repurchase agreements is recorded as incurred.

2. Principal Risks
In the normal course of business, the Funds trade financial instruments and enter into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Funds are also exposed to other risks such as, but not limited to, interest rate and credit risks.

Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Funds is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is used primarily as a measure of the sensitivity of a fixed income security s market price to interest rate (*i.e.* yield) movements.

Variable and floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Inverse floating rate securities may decrease in value if interest rates

2. Principal Risks (continued)

increase. Inverse floating rate securities may also exhibit greater price volatility than a fixed rate obligation with similar credit quality. When the Funds hold variable or floating rate securities, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities and the NAV of the Funds shares.

The Funds are exposed to credit risk, which is the risk of losing money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived (whether by market participants, rating agencies, pricing services or otherwise) as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

The Funds are exposed to counterparty risk, or the risk that an institution or other entity with which the Funds have unsettled or open transactions will default. The potential loss to the Funds could exceed the value of the financial assets recorded in the Funds financial statements. Financial assets, which potentially expose the Funds to counterparty risk, consist principally of cash due from counterparties and investments. The Funds Sub-Adviser, Pacific Investment Management Company LLC (the Sub-Adviser), an affiliate of the Investment Manager, seeks to minimize the Funds counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

The Funds are party to International Swaps and Derivatives Association, Inc. Master Agreements (ISDA Master Agreements) with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Funds and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Funds.

3. Financial Derivative Instruments

Disclosure about derivatives and hedging activities requires qualitative disclosure regarding objectives and strategies for using derivatives, quantitative disclosure about fair value amounts of gains and losses on derivatives, and disclosure about credit-risk-related contingent features in derivative agreements. The disclosure requirements distinguish between derivatives which are accounted for as hedges and those that do not qualify for such accounting. Although the Funds sometimes use derivatives for hedging purposes, the Funds reflect derivatives at fair value and recognize changes in fair value through the Funds Statements of Operations, and such derivatives do not qualify for hedge accounting treatment.

(a) Swap Agreements

Swap agreements are privately negotiated agreements between the Funds and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. The Funds enter into credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements in order to manage their exposure to credit, currency and interest rate risk. In connection with these agreements, securities may be identified as collateral in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Payments received or made at the beginning of the measurement period are reflected as such on the Funds Statements of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments are recorded as realized gains or losses on the Funds Statements of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Funds Statements of Operations. Net periodic payments received or paid by the Funds are included as part of realized gains or losses on the Funds Statements of Operations.

Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Funds Statements of Assets and Liabilities. Such risks include the possibility that there will be no liquid market for these agreements, that the counterparties to the agreements may default on their obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

3. Financial Derivative Instruments (continued)

Interest Rate Swap Agreements Interest rate swap agreements involve the exchange by the Funds with a counterparty of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments, with respect to the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or cap , (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or floor , (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the counterparty may terminate the swap transaction in whole at zero cost by a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different money markets.

The following is a summary of the fair valuation of the Funds derivatives categorized by risk exposure.

The effect of derivatives on the Statements of Assets and Liabilities at May 31, 2011:

Municipal II:

Location	Interest Rate Contracts
Liability derivatives:	
Unrealized depreciation of swaps	$(6,850,035)

California Municipal II:

Location	Interest Rate Contracts
Liability derivatives:	
Unrealized depreciation of swaps	$(4,176,010)

New York Municipal II:

Location	Interest Rate Contracts
Liability derivatives:	
Unrealized depreciation of swaps	$(1,153,882)

The effect of derivatives on the Statements of Operations for the year ended May 31, 2011:

Municipal II:

Location	Interest Rate Contracts
Net realized loss on:	
Swaps	$(392,040)
Net change in unrealized appreciation/depreciation of:	

Swaps	$ (6,850,035)

California Municipal II:

Location	Interest Rate Contracts
Net realized loss on:	
Swaps	$ (1,015,545)
Net change in unrealized appreciation/depreciation of:	
Swaps	$ (4,176,010)

PIMCO Municipal Income Funds II Notes to Financial Statements
May 31, 2011

3. Financial Derivative Instruments (continued)

New York Municipal II:

Location	Interest Rate Contracts
Net realized loss on:	
Swaps	$(535,850)
Net change in unrealized appreciation/depreciation of:	
Swaps	$ (1,153,882)

The average volumes of derivative activities during the year ended May 31, 2011 were:

	Interest Rate Swap Agreements*
Municipal II	$30,860
California Municipal II	23,240
New York Municipal II	6,900

* *Notional amount (in thousands)*

4. Investment Manager/Sub-Adviser
Each Fund has an Investment Management Agreement (each an Agreement) with the Investment Manager. Subject to the supervision of the Funds Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds investment activities, business affairs and administrative matters. Pursuant to each Agreement, the Investment Manager receives an annual fee, payable monthly, at an annual rate of 0.65% of each Fund s average daily net assets, inclusive of net assets attributable to any Preferred Shares outstanding.

The Investment Manager has retained the Sub-Adviser to manage the Funds investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds investment decisions. The Investment Manager, and not the Funds, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

5. Investments in Securities
Purchases and sales of investments, other than short-term securities, for the year ended May 31, 2011 were:

	Municipal II	California Municipal II	New York Municipal II
Purchases	$226,499,129	$69,437,484	$19,611,462
Sales	223,957,588	82,948,991	14,824,728

(a) Interest rate swap agreements outstanding at May 31, 2011:

Municipal II:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type Payments Made	Rate Type Payments Received	Market Value	Upfront Premiums Paid (Received)	Unrealized Depreciation
Citigroup	$41,900	6/20/42	4.75%	3-Month USD-LIBOR	$(4,006,436)	$ (770,800)	$ (3,235,636)

Goldman Sachs	9,900	6/20/42	4.75%	3-Month USD-LIBOR	(946,628)	78,210	(1,024,838)
Morgan Stanley	23,200	6/20/42	4.75%	3-Month USD-LIBOR	(2,218,361)	371,200	(2,589,561)
					$(7,171,425)	$ (321,390)	$ (6,850,035)

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

5. Investments in Securities (continued)

California Municipal II:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type Payments Made	Rate Type Payments Received	Market Value	Upfront Premiums (Received)	Unrealized Depreciation
Bank of America	$34,000	6/20/42	4.75%	3-Month USD-LIBOR	$(3,251,046)	$ (321,550)	$ (2,929,496)
Citigroup	16,500	6/20/42	4.75%	3-Month USD-LIBOR	(1,577,714)	(331,200)	(1,246,514)
					$(4,828,760)	$ (652,750)	$ (4,176,010)

New York Municipal II:

Swap Counterparty	Notional Amount (000s)	Termination Date	Rate Type Payments Made	Rate Type Payments Received	Market Value	Upfront Premiums (Received)	Unrealized Depreciation
Bank of America	$3,600	6/20/42	4.75%	3-Month USD-LIBOR	$(344,229)	$(33,210)	$(311,019)
Citigroup	8,700	6/20/42	4.75%	3-Month USD-LIBOR	(831,885)	(179,100)	(652,785)
JPMorgan Chase	2,200	6/20/42	4.75%	3-Month USD-LIBOR	(210,362)	(20,284)	(190,078)
					$ (1,386,476)	$ (232,594)	$ (1,153,882)

LIBOR London Inter-Bank Offered Rate

(b) Open reverse repurchase agreements at May 31, 2011:

California Municipal II:

Counterparty	Rate	Trade Date	Maturity Date	Principal & Interest	Principal
Credit Suisse First Boston	0.65%	5/18/11	6/20/11	$3,294,833	$ 3,294,000

The weighted average daily balance of reverse repurchase agreements outstanding during the year ended May 31, 2011 for California Municipal II and New York Municipal II was $3,935,814 and $3,912,118 at a weighted average interest rate of 0.62% and 0.68%, respectively. The total market value of underlying collateral (refer to the Schedules of Investments for positions segregated for the benefit of the counterparty as collateral for reverse repurchase agreements) for open reverse repurchase agreements for the benefit of the counterparty at May 31, 2011 was $3,646,200 for California Municipal II. At May 31, 2011, Municipal II and New York Municipal II had no open reverse repurchase agreements.

(c) Floating rate notes:

The weighted average daily balance of floating rate notes outstanding during the year ended May 31, 2011 for Municipal II, California Municipal II and New York Municipal II was $86,118,055, $48,727,970 and $11,845,090 at a weighted average interest rate, including fees, of 0.88%, 0.85% and 0.91%, respectively.

6. Income Tax Information

For the year ended May 31, 2011, the tax character of dividends paid by the Funds was as follows:

	Ordinary Income Distributions	Tax Exempt Income
Municipal II	$429,923	$ 48,021,982
California Municipal II	2,182,891	21,958,863
New York Municipal II	623,161	8,283,506

PIMCO Municipal Income Funds II **Notes to Financial Statements**

May 31, 2011

6. Income Tax Information (continued)

For the year ended May 31, 2010, the tax character of dividends paid by the Funds was as follows:

	Ordinary Income Distributions	Tax Exempt Income
Municipal II	$1,208,531	$ 47,079,650
California Municipal II	3,653,860	21,127,173
New York Municipal II	1,371,604	7,516,459

At May 31, 2011, the components of distributable earnings were as follows:

	Tax Exempt Income	Capital Loss Carryforwards [1]	Post - October Deferral[2]
Municipal II	$ 15,462,847	$234,251,918	$4,824,982
California Municipal II	0	205,882,586	808,034
New York Municipal II	1,959,285	44,492,219	1,380,093

[1] Capital losses available to offset future net capital gains, expiring in varying amounts as indicated below.

[2] Capital losses realized during the period November 1, 2010 through May 31, 2011 which the Funds elected to defer to the following taxable year pursuant to income tax regulations.

At May 31, 2011, the Funds have capital loss carryforwards expiring in the following years:

	2012	2013	2014	2015	2016	2017	2018
Municipal II	$	$ 49,108,685	$ 4,473,237	$ 7,912,932	$	$ 7,955,461	$ 164,801,603
California Municipal II	2,776,152	16,328,922		5,531,398	4,849,597	18,401,113	157,995,404
New York Municipal II	172,581	5,755,677		51,848	1,171,157	2,961,908	34,379,048

For the year ended May 31, 2011, the Funds had capital capital loss carryforwards which were utilized and/or expired as follows:

	Utilized	Expired
Municipal II	$ 11,786,475	$
California Municipal II	1,143,791	
New York Municipal II	206,221	

For the fiscal year ended May 31, 2011, permanent book-tax adjustments were as follows:

	Undistributed (Distributions in Excess of) Net Investment Income	Accumulated Net Realized Gain (Loss)	Paid-In Capital In Excess of Par
Municipal II (a) (c)	$ 32,340	$ 2,500	$ (34,840)
California Municipal II (a) (b)	1,000,802	169,019	(1,169,821)

New York Municipal II (a) (b)	267,731	10,505	(278,236)

These permanent book-tax differences were primarily attributable to:

(a) Differing treatment of Inverse Floaters
(b) Taxable Overdistributions
(c) Non-deductible Excise tax
Net investment income, net realized gains or losses and net assets were not affected by these adjustments.

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

6. Income Tax Information (continued)

At May 31, 2011, the aggregate cost basis and the net unrealized appreciation (depreciation) of investments for federal income tax purposes were as follows:

	Federal Tax Cost Basis[3]	Unrealized Appreciation	Unrealized Depreciation	Net Unrealized Appreciation (Depreciation)
Municipal II	$983,325,367	$34,566,035	$(46,458,099)	$(11,892,064)
California Municipal II	385,439,771	22,211,012	(9,954,247)	12,256,765
New York Municipal II	185,487,211	6,806,669	(5,051,087)	1,755,582

[3] Differences between book and tax cost basis were primarily attributable to inverse floater transactions.

7. Auction-Rate Preferred Shares

Municipal II has 2,936 shares of Preferred Shares Series A, 2,936 shares of Preferred Shares Series B, 2,936 shares of Preferred Shares Series C, 2,936 shares of Preferred Shares Series D and 2,936 shares of Preferred Shares Series E outstanding, each with a liquidation preference value of $25,000 per share plus any accumulated, unpaid dividends.

California Municipal II has 1,304 shares of Preferred Shares Series A, 1,304 shares of Preferred Shares Series B, 1,304 shares of Preferred Shares Series C, 1,304 shares of Preferred Shares Series D and 1,304 shares of Preferred Shares Series E outstanding, each with a liquidation preference value of $25,000 per share plus any accumulated, unpaid dividends.

New York Municipal II has 1,580 shares of Preferred Shares Series A and 1,580 shares of Preferred Shares Series B outstanding, each with a liquidation preference value of $25,000 per share plus any accumulated, unpaid dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures (or through default provisions in the event of failed auctions). Distributions of net realized capital gains, if any, are paid annually.

For the year ended May 31, 2011, the annualized dividend rates for each Fund ranged from:

	High	Low	At May 31, 2011
Municipal II:			
Series A	0.686%	0.305%	0.305%
Series B	0.686%	0.305%	0.305%
Series C	0.686%	0.305%	0.305%
Series D	0.686%	0.305%	0.305%
Series E	0.686%	0.305%	0.305%
California Municipal II:			
Series A	0.686%	0.305%	0.305%
Series B	0.686%	0.305%	0.305%
Series C	0.686%	0.305%	0.305%
Series D	0.686%	0.305%	0.305%
Series E	0.686%	0.305%	0.305%
New York Municipal II:			
Series A	0.686%	0.305%	0.305%
Series B	0.686%	0.305%	0.305%

The Funds are subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring or paying any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation preference value plus any accumulated, unpaid dividends.

Preferred shareholders, who are entitled to one vote per share, generally vote together with the common shareholders but vote separately as a class to elect two Trustees and on any matters affecting the rights of the Preferred Shares.

PIMCO Municipal Income Funds II Notes to Financial Statements
May 31, 2011

7. Auction-Rate Preferred Shares (continued)
Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation s closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and the ARPS holders have continued to receive dividends at the defined maximum rate equal to the higher of the 30-day AA Composite Commercial Paper Rate multiplied by 110% or the Taxable Equivalent of the Short-Term Municipal Obligations Rate-defined as 90% of the quotient of (A) the per annum rate expressed on an interest equivalent basis equal to the Kenny S&P 30-day High Grade Index divided by (B) 1.00 minus the Marginal Tax Rate (expressed as a decimal) multiplied by 110% (which is a function of short-term interest rates and typically higher than the rate that would have otherwise been set through a successful auction). If the Funds ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds common shareholders could be adversely affected.

See Note 8 Legal Proceedings for a discussion of shareholder demand letters received by certain closed-end funds managed by the Investment Manager including Municipal II.

8. Legal Proceedings
In June and September 2004, the Investment Manager and certain of its affiliates (including PEA Capital LLC (PEA), Allianz Global Investors Distributors LLC and Allianz Global Investors of America, L.P.) agreed to settle, without admitting or denying the allegations, claims brought by the Securities and Exchange Commission (SEC) and the New Jersey Attorney General alleging violations of federal and state securities laws with respect to certain open-end funds for which the Investment Manager serves as investment adviser. The settlements related to an alleged market timing arrangement in certain open-end funds formerly sub-advised by PEA. The Investment Manager and its affiliates agreed to pay a total of $68 million to settle the claims. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing, and consented to cease and desist orders and censures. Subsequent to these events, PEA deregistered as an investment adviser and dissolved. None of the settlements alleged that any inappropriate activity took place with respect to the Funds.

Since February 2004, the Investment Manager and certain of its affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing, which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland (the MDL Court). After a number of claims in the lawsuits were dismissed by the MDL Court, the parties entered into a stipulation of settlement, which was publicly filed with the MDL Court in April 2010, resolving all remaining claims. In April 2011, the MDL Court granted final approval of the settlement.

In addition, in a lawsuit filed in the Northern District of Illinois Eastern Division, plaintiffs challenged certain trades by Sub-Adviser in the June 2005 10 year futures contract. Sub-Adviser s position is that all such trades were properly designed to secure best execution for its clients. The parties resolved this matter through settlement, which resolves all of the claims against the Sub-Adviser. In settling this matter, Sub-Adviser denies any liability. This settlement is purely private in nature and not a regulatory matter.

Beginning in May 2010, several closed-end funds managed by the Investment Manager, including Municipal Income Fund II and certain other funds sub-advised by the Sub-Adviser, each received a demand letter from a law firm on behalf of certain common shareholders. The demand letters allege that the Investment Manager and certain officers and trustees of the funds breached their fiduciary duties in connection with the redemption at par of a portion of the funds ARPS and demand that the boards of trustees take certain action to remedy those alleged breaches. After conducting an investigation in August 2010, the independent trustees of Municipal Income Fund II rejected the demands made in the demand letters.

The Investment Manager and the Sub-Adviser believe that these matters are not likely to have a material adverse effect on the Funds or on their ability to perform their respective investment advisory activities relating to the Funds.

PIMCO Municipal Income Funds II **Notes to Financial Statements**
May 31, 2011

9. Subsequent Events
On June 1, 2011, the following dividends were declared to common shareholders payable July 1, 2011 to shareholders of record on June 13, 2011:

Municipal II	$0.065 per common share
California Municipal II	$0.0625 per common share
New York Municipal II	$0.06625 per common share

On July 1, 2011, the following dividends were declared to common shareholders payable August 1, 2011 to shareholders of record on July 11, 2011:

Municipal II	$0.065 per common share
California Municipal II	$0.0625 per common share
New York Municipal II	$0.06625 per common share

At the June 14-15, 2011 annual Board meeting, the Funds Board of Trustees approved a voluntary investment management fee waiver of 0.05% for the period from July 1, 2011 through June 30, 2012.

Effective June 24, 2011, the address of the Fund and the Investment Manager changed to 1633 Broadway, New York, NY 10019.

PIMCO Municipal Income Fund II **Financial Highlights**
For a common share outstanding throughout each year:

	Year ended May 31,				
	2011	2010	2009	2008	2007
Net asset value, beginning of year	$10.77	$8.97	$13.86	$15.05	$14.71
Investment Operations:					
Net investment income	0.91	0.88	1.02	1.13	1.13
Net realized and change in unrealized gain (loss) on investments, futures contracts, options written and swaps	(0.75)	1.73	(4.94)	(1.24)	0.33
Total from investment operations	0.16	2.61	(3.92)	(0.11)	1.46
Dividends on Preferred Shares from Net Investment Income	(0.03)	(0.03)	(0.19)	(0.30)	(0.30)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.13	2.58	(4.11)	(0.41)	1.16
Dividends to Common Shareholders from Net Investment Income	(0.78)	(0.78)	(0.78)	(0.78)	(0.82)
Net asset value, end of year	$10.12	$10.77	$8.97	$13.86	$15.05
Market price, end of year	$10.45	$11.12	$9.56	$14.14	$15.42
Total Investment Return (1)	1.30%	25.49%	(26.46)%	(3.09)%	12.64%
RATIOS/SUPPLEMENTAL DATA:					
Net assets applicable to common shareholders, end of year (000s)	$610,800	$645,589	$534,046	$819,740	$886,815
Ratio of expenses to average net assets including interest expense (2)(3)(4)	1.37%	1.38%(5)	1.73%(5)	1.68%(5)	1.50%(5)
Ratio of expenses to average net assets, excluding interest expense (2)(3)	1.24%	1.24%(5)	1.35%(5)	1.19%(5)	1.01%(5)
Ratio of net investment income to average net assets (2)	8.80%	8.77%(5)	10.23%(5)	7.90%(5)	7.45%(5)
Preferred shares asset coverage per share	$66,606	$68,974	$61,376	$65,570	$68,889
Portfolio turnover	21%	6%	42%	21%	4%

(1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Income dividends and capital gains, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(i) in Notes to Financial Statements).

(4) Interest expense relates to the liability for floating rate notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.

(5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.004%, 0.10%, 0.17% and 0.24% for the years ended May 31, 2010, May 31, 2009, May 31, 2008 and May 31, 2007, respectively.

PIMCO California Municipal Income Fund II **Financial Highlights**
For a common share outstanding throughout each year:

	Year ended May 31,				
	2011	2010	2009	2008	2007
Net asset value, beginning of year	$8.11	$7.48	$13.34	$14.89	$14.58
Investment Operations:					
Net investment income	0.74	0.76	0.85	1.06	1.08
Net realized and change in unrealized gain (loss) on investments, futures contracts, options written and swaps	(0.70)	0.67	(5.69)	(1.49)	0.34
Total from investment operations	0.04	1.43	(4.84)	(0.43)	1.42
Dividends on Preferred Shares from Net Investment Income	(0.02)	(0.03)	(0.18)	(0.28)	(0.27)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.02	1.40	(5.02)	(0.71)	1.15
Dividends to Common Shareholders from Net investment income	(0.75)	(0.77)	(0.80)	(0.84)	(0.84)
Return of capital			(0.04)		
Net asset value, end of year	$7.38	$8.11	$7.48	$13.34	$14.89
Market price, end of year	$9.21	$9.33	$8.78	$14.25	$15.96
Total Investment Return (1)	7.53%	16.44%	(32.26)%	(5.17)%	15.35%
RATIOS/SUPPLEMENTAL DATA:					
Net assets applicable to common shareholders, end of year (000s)	$231,486	$252,816	$231,415	$409,769	$455,284
Ratio of expenses to average net assets including interest expense (2)(3)(4)	1.55%	1.56%(5)	3.15%(5)	3.23%(5)	2.89%(5)
Ratio of expenses to average net assets, excluding interest expense (2)(3)	1.37%	1.33%(5)	1.43%(5)	1.18%(5)	1.01%(5)
Ratio of net investment income to average net assets (2)	9.73%	9.78%(5)	9.31%(5)	7.65%(5)	7.28%(5)
Preferred shares asset coverage per share	$60,503	$63,773	$60,490	$64,390	$68,765
Portfolio turnover	15%	9%	62%	6%	3%

(1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Income dividends, capital gains and return of capital distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(i) in Notes to Financial Statements).

(4) Interest expense relates to the liability for floating rate notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.

(5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.004%, 0.10%, 0.17% and 0.24% for the years ended May 31, 2010, May 31, 2009, May 31, 2008 and May 31, 2007, respectively.

PIMCO New York Municipal Income Fund II **Financial Highlights**
For a common share outstanding throughout each year:

	Year ended May 31,				
	2011	2010	2009	2008	2007
Net asset value, beginning of year	$10.90	$9.56	$13.67	$14.79	$14.66
Investment Operations:					
Net investment income	0.88	0.98	1.00	1.07	1.10
Net realized and change in unrealized gain (loss) on investments, futures contracts, options written and swaps	(0.85)	1.19	(4.13)	(1.11)	0.11
Total from investment operations	0.03	2.17	(3.13)	(0.04)	1.21
Dividends on Preferred Shares from Net Investment Income	(0.03)	(0.03)	(0.19)	(0.29)	(0.28)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	0.00	2.14	(3.32)	(0.33)	0.93
Dividends to Common Shareholders from Net Investment Income	(0.80)	(0.80)	(0.79)	(0.79)	(0.80)
Net asset value, end of year	$10.10	$10.90	$9.56	$13.67	$14.79
Market price, end of year	$10.92	$11.42	$10.26	$14.42	$15.49
Total Investment Return (1)	3.03%	19.92%	(22.95)%	(1.46)%	15.51%
RATIOS/SUPPLEMENTAL DATA:					
Net assets applicable to common shareholders, end of year (000s)	$109,256	$117,161	$102,126	$145,100	$156,218
Ratio of expenses to average net assets including interest expense (2)(3)(4)	1.55%	1.53%(5)	1.88%(5)	2.07%(5)	2.13%(5)
Ratio of expenses to average net assets, excluding interest expense (2)(3)	1.44%	1.43%(5)	1.51%(5)	1.25%(5)	1.14%(5)
Ratio of net investment income to average net assets (2)	8.46%	9.51%(5)	9.63%(5)	7.69%(5)	7.33%(5)
Preferred shares asset coverage per share	$59,574	$62,073	$57,316	$65,294	$68,386
Portfolio turnover	7%	5%	33%	9%	3%

(1) Total investment return is calculated assuming a purchase of a common share at the market price on the first day and a sale of a common share at the market price on the last day of each year reported. Income dividends and capital gains, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges in connection with the purchase or sale of Fund shares.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shares relative to the average net assets of common shareholders.

(3) Inclusive of expenses offset by custody credits earned on cash balances at the custodian bank (See note 1(i) in Notes to Financial Statements).

(4) Interest expense relates to the liability for floating rate notes issued in connection with Inverse Floater transactions and/or participation in reverse repurchase agreement transactions.

(5) During the years indicated above, the Investment Manager waived a portion of its investment management fee. The effect of such waiver relative to the average net assets of common shareholders was 0.004%, 0.10%, 0.17% and 0.24% for the years ended May 31, 2010, May 31, 2009, May 31, 2008 and May 31, 2007, respectively.

PIMCO Municipal Income Funds II **Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Trustees of:

PIMCO Municipal Income Fund II,
PIMCO California Municipal Income Fund II and
PIMCO New York Municipal Income Fund II

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets applicable to common shareholders and of cash flows (for PIMCO California Municipal Income Fund II only) and the financial highlights present fairly, in all material respects, the financial position of PIMCO Municipal Income Fund II, PIMCO California Municipal Income Fund II and PIMCO New York Municipal Income Fund II (collectively hereafter referred to as the Funds) at May 31, 2011, the results of their operations and of cash flows (for PIMCO California Municipal Income Fund II only) for the year then ended, the changes in their net assets applicable to common shareholders for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Funds management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at May 31, 2011 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
July 20, 2011

PIMCO Municipal Income Funds II **Tax Information/Annual Shareholder Meeting Results/ Changes to Board of Trustees** (unaudited)

Tax Information:

For the year ended May 31, 2011, the Funds designate the following percentages of the ordinary income dividends (or such greater percentages that constitute the maximum amount allowable pursuant to code sections 103(a) and 852(b)(5)), as exempt-interest dividends which are exempt from federal income tax other than the alternative minimum tax.

Municipal II	99.11%
California Municipal II	90.95%
New York Municipal II	93.00%

Since the Funds tax year is not the calendar year, another notification will be sent with respect to calendar year 2011. In January 2012, shareholders will be advised on IRS Form 1099-DIV as to the federal tax status of the dividends and distributions received during calendar 2011. The amount that will be reported will be the amount to use on your 2011 federal income tax return and may differ from the amount which must be reported in connection with the Funds tax year ended May 31, 2011. Shareholders are advised to consult their tax advisers as to the federal, state and local tax status of the dividend income received from the Funds. In January 2012, an allocation of interest income by state will be provided which may be of value in reducing a shareholder s state and local tax liability, if any.

Annual Shareholder Meeting Results:

The Funds held their joint annual meeting of shareholders on December 14, 2010. Common/Preferred shareholders voted as indicated below:

	Affirmative	Withheld Authority
Municipal II		
Re-election of Paul Belica Class II to serve until 2013	53,889,723	1,827,839
Election of James A. Jacobson* Class II to serve until 2013	11,618	179
Election of Alan Rappaport Class I to serve until 2012	54,271,846	1,445,716
California Municipal II		
Re-election of Paul Belica Class II to serve until 2013	25,677,044	1,390,672
Election of James A. Jacobson* Class II to serve until 2013	4,129	21
Election of Alan Rappaport Class I to serve until 2012	25,785,464	1,282,252
New York Municipal II		
Re-election of Paul Belica Class II to serve until 2013	9,287,460	378,002
Election of James A. Jacobson* Class II to serve until 2013	1,327	47
Election of Alan Rappaport Class I to serve until 2012	9,370,705	294,757

The other members of the Board of Trustees at the time of the meeting, namely Messrs. Hans W. Kertess*, John C. Maney , and William B. Ogden, IV, continued to serve as Trustees of the Funds.

* Preferred Shares Trustee
Interested Trustee

Changes to Board of Trustees:

Effective December 15, 2010, the Funds Board of Trustees appointed Bradford K. Gallagher as a Class III Trustee to serve until 2011.

Effective March 7, 2011, the Funds Board of Trustees appointed Deborah A. Zoullas as a Class II Trustee to serve until 2011.

PIMCO Municipal Income Funds II **Privacy Policy/Proxy Voting Policies & Procedures** (unaudited)

Privacy Policy:

Our Commitment to You
We consider customer privacy to be a fundamental aspect of our relationship with shareholders and are committed to maintaining the confidentiality, integrity and security of our current, prospective and former shareholders personal information. To ensure our shareholders privacy, we have developed policies that are designed to protect this confidentiality, while allowing shareholders needs to be served.

Obtaining Personal Information
In the course of providing shareholders with products and services, we may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder s brokerage or financial advisory firm, financial adviser or consultant, and/or from information captured on our internet web sites.

Respecting Your Privacy
As a matter of policy, we do not disclose any personal or account information provided by shareholders or gathered by us to non-affiliated third parties, except as required for our everyday business purposes, such as to process transactions or service a shareholder s account, or as otherwise permitted by law. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, and gathering shareholder proxies. We may also retain non-affiliated financial services providers, such as broker-dealers, to market our shares or products and we may enter into joint-marketing arrangements with them and other financial companies. We may also retain marketing and research service firms to conduct research on shareholder satisfaction. These companies may have access to a shareholder s personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. We may also provide a shareholder s personal and account information to their respective brokerage or financial advisory firm, Custodian, and/or to their financial advisor or consultant.

Sharing Information with Third Parties
We reserve the right to disclose or report personal information to non-affiliated third parties, in limited circumstances, where we believe in good faith that disclosure is required under law to cooperate with regulators or law enforcement authorities, to protect our rights or property or upon reasonable request by any Fund in which a shareholder has chosen to invest. In addition, we may disclose information about a shareholder or shareholder s accounts to a non-affiliated third party only if we receive a shareholder s written request or consent.

Sharing Information with Affiliates
We may share shareholder information with our affiliates in connection with our affiliates everyday business purposes, such as servicing a shareholder s account, but our affiliates may not use this information to market products and services to you except in conformance with applicable laws or regulations. The information we share includes information about our experiences and transactions with a shareholder and may include, for example, a shareholder s participation in one of the Funds or in other investment programs, a shareholder s ownership of certain types of accounts (such as IRAs), or other data about a shareholder s transactions or accounts. Our affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

Procedures to Safeguard Private Information
We take seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, we have also implemented procedures that are designed to restrict access to a shareholder s non-public personal information only to internal personnel who need to know that information in order to provide products or services to such shareholders. In addition, we have physical, electronic and procedural safeguards in place to guard a shareholder s non-public personal information.

Disposal of Confidential Records
We will dispose of records, if any, that are knowingly derived from data received from a consumer reporting agency regarding a shareholder that is an individual in a manner that ensures the confidentiality of the data is maintained. Such records include, among other things, copies of consumer reports and notes of conversations with individuals at consumer reporting agencies.

Proxy Voting Policies & Procedures:
A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds shareholder servicing agent at (800) 254-5197; (ii) on the Funds website at www.allianzinvestors.com/closedendfunds; and (iii) on the Securities and Exchange Commission website at www.sec.gov

PIMCO Municipal Income Funds II **Dividend Reinvestment Plan** (unaudited)

Pursuant to the Funds Dividend Reinvestment Plan (the Plan), all Common Shareholders whose shares are registered in their own names will have all dividends, including any capital gain dividends, reinvested automatically in additional Common Shares by BNY Mellon, as agent for the Common Shareholders (the Plan Agent), unless the shareholder elects to receive cash. An election to receive cash may be revoked or reinstated at the option of the shareholder. In the case of record shareholders such as banks, brokers or other nominees that hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder as representing the total amount registered in such shareholder s name and held for the account of beneficial owners who are to participate in the Plan. Shareholders whose shares are held in the name of a bank, broker or nominee should contact the bank, broker or nominee for details. All distributions to investors who elect not to participate in the Plan (or whose broker or nominee elects not to participate on the investor s behalf), will be paid cash by check mailed, in the case of direct shareholder, to the record holder by BNY Mellon, as the Funds dividend disbursement agent.

Unless you elect (or your broker or nominee elects) not to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If on the payment date the net asset value of the Common Shares is equal to or less than the market price per Common Share plus estimated brokerage commissions that would be incurred upon the purchase of Common Shares on the open market, the Funds will issue new shares at the greater of (i) the net asset value per Common Share on the payment date or (ii) 95% of the market price per Common Share on the payment date; or

(2) If on the payment date the net asset value of the Common Shares is greater than the market price per Common Share plus estimated brokerage commissions that would be incurred upon the purchase of Common Shares on the open market, the Plan Agent will receive the dividend or distribution in cash and will purchase Common Shares in the open market, on the NYSE or elsewhere, for the participants accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price on the payment date, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Funds. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market on or shortly after the payment date, but in no event later than the ex-dividend date for the next distribution. Interest will not be paid on any uninvested cash payments.

You may withdraw from the Plan at any time by giving notice to the Plan Agent. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all shareholders accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. The Plan Agent will also furnish each person who buys Common Shares with written instructions detailing the procedures for electing not to participate in the Plan and to instead receive distributions in cash. Common Shares in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all Common Shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvested dividends and distributions are taxed in the same manner as cash dividends and distributions.

The Funds and the Plan Agent reserve the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Funds reserve the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained from the Funds shareholder servicing agent, BNY Mellon, P.O. Box 43027, Providence, RI 02940-3027, telephone number (800) 254-5197.

PIMCO Municipal Income Funds II **Board of Trustees** (unaudited)

Name, Date of Birth, Position(s) Held with Fund, Length of Service, Other Trusteeships/ Directorships Held by Trustee; Number of Portfolios in Fund Complex/Outside Fund Complexes Currently Overseen by Trustee	Principal Occupation(s) During Past 5 Years:
The address of each trustee is 1633 Broadway, New York, NY 10019.	
Hans W. Kertess *Date of Birth: 7/12/39* *Chairman of the Board of Trustees since: 2007* *Trustee since: 2002* *Term of office: Expected to stand for re-election at 2012 annual meeting of shareholders.* *Trustee/Director of 55 funds in Fund Complex;* *Trustee/Director of no funds outside of Fund Complex*	President, H. Kertess & Co., a financial advisory company. Formerly, Managing Director, Royal Bank of Canada Capital Markets.
Paul Belica *Date of Birth: 9/27/21* *Trustee since: 2002* *Term of office: Expected to stand for re-election at 2013 annual meeting of shareholders.* *Trustee/Director of 55 funds in Fund Complex* *Trustee/Director of no funds outside of Fund Complex*	Retired. Formerly Director, Student Loan Finance Corp., Education Loans, Inc., Goal Funding, Inc., Goal Funding II, Inc. and Surety Loan Fund, Inc. Formerly, Manager of Stratigos Fund LLC, Whistler Fund LLC, Xanthus Fund LLC & Wynstone Fund LLC.
Bradford K. Gallagher *Date of Birth: 2/28/44* *Trustee since: 2010* *Term of office: Expected to stand for election at 2011 annual meeting of shareholders.* *Trustee/Director of 55 funds in Fund Complex* *Trustee/Director of no funds outside of Fund Complex* *Formerly, Chairman and Trustee of Grail Advisors ETF Trust (2009-2010) and Trustee of Nicholas-Applegate Institutional Funds (2007-2010).*	Founder, Spyglass Investments LLC, a private investment vehicle (since 2001); Founder, President and CEO of Cypress Holding Company and Cypress Tree Investment Management Company (since 1995); Trustee, The Common Fund (since 2005); Director, Anchor Point Inc. (since 1995); Chairman and Trustee, Atlantic Maritime Heritage Foundation (since 2007); Director, Shielding Technology Inc. (since 2006).
James A. Jacobson *Date of Birth: 2/3/45* *Trustee since: 2009* *Term of office: Expected to stand for re-election at 2013 annual meeting of shareholders.* *Trustee/Director of 55 funds in Fund Complex* *Trustee/Director of 16 funds in the Alpine Mutual Funds Complex*	Retired. Formerly, Vice Chairman and Managing Director of Spear, Leeds & Kellogg Specialists, LLC, a specialist firm on the New York Stock Exchange.
John C. Maney *Date of Birth: 8/3/59* *Trustee since: 2006* *Term of office: Expected to stand for re-election at 2011 annual meeting of shareholders.* *Trustee/Director of 80 funds in Fund Complex* *Trustee/Director of no funds outside of Fund Complex*	Management Board, Managing Director and Chief Executive Officer of Allianz Global Investors Fund Management LLC; Management Board and Managing Director of Allianz Global Investors of America L.P. since January 2005 and also Chief Operating Officer of Allianz Global Investors of America L.P. since November 2006.
William B. Ogden, IV *Date of Birth: 1/11/45*	Asset Management Industry Consultant. Formerly, Managing Director, Investment Banking Division of Citigroup Global Markets Inc.

Trustee since: 2006
Term of office: Expected to stand for re-election at 2012 annual meeting of shareholders.
Trustee/Director of 55 funds in Fund Complex;
Trustee/Director of no funds outside of Fund Complex

PIMCO Municipal Income Funds II **Board of Trustees** (unaudited) (continued)

Name, Date of Birth, Position(s) Held with Fund, Length of Service, Other Trusteeships/ Directorships Held by Trustee; Number of Portfolios in Fund Complex/Outside Fund Complexes Currently Overseen by Trustee	**Principal Occupation(s) During Past 5 Years:**
Alan Rappaport *Date of Birth: 3/13/53* *Trustee since: 2010* *Term of office: Expected to stand for re-election at 2012 annual meeting of shareholders.* *Trustee/Director of 55 funds in Fund Complex* *Trustee/Director of no funds outside of Fund Complex*	Vice Chairman, Roundtable Investment Partners (since 2009); Chairman (formerly President), Private Bank of Bank of America; Vice Chairman, US Trust (2001-2008).
Deborah A. Zoullas *Date of Birth: 11/13/52* *Trustee since: 2011* *Term of office: Expected to stand for election at 2011 annual meeting of shareholders.* *Trustee/Director of 55 funds in Fund Complex* *Trustee/Director of no funds outside of Fund* Complex	Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Director, Helena Rubenstein Foundation (since 1997); Co-Chair Special Projects Committee, Memorial Sloan Kettering (since 2005); Board Member and Member of the Investment and Finance Committees, Henry Street Settlement (since 2007); Trustee, Stanford University (since 2010). Formerly, Advisory Council, Stanford Business School (2002-2008) and Director, Armor Holdings, a manufacturing company (2002-2007).

Mr. Maney is an interested person of the Funds, as defined in Section 2(a)(19) of the 1940 Act, due to his positions set forth in the table above, among others with the Funds Investment Manager and various affiliated entities.

PIMCO Municipal Income Funds II **Fund Officers** (unaudited)

Name, Date of Birth, Position(s) Held with Funds	Principal Occupation(s) During Past 5 Years:
Brian S. Shlissel *Date of Birth: 11/14/64* *President & Chief Executive Officer since: 2002*	Management Board, Managing Director and Head of Mutual Fund Services, Allianz Global Investors Fund Management LLC; President and Chief Executive Officer of 29 funds in the Fund Complex; President of 51 funds in the Fund Complex and Treasurer, Principal Financial and Accounting Officer of The Korea Fund, Inc. Formerly, Treasurer, Principal Financial and Accounting Officer of 50 funds in the Fund Complex.
Lawrence G. Altadonna *Date of Birth: 3/10/66* *Treasurer, Principal Financial and Accounting Officer since: 2002*	Senior Vice President and Director of Fund Administration, Allianz Global Investors Fund Management LLC; Treasurer, Principal Financial and Accounting Officer of 80 funds in the Fund Complex; Assistant Treasurer of The Korea Fund, Inc. Formerly, Assistant Treasurer of 50 funds in the Fund Complex.
Thomas J. Fuccillo *Date of Birth: 3/22/68* *Vice President, Secretary & Chief Legal Officer since: 2004*	Executive Vice President, Chief Legal Officer and Secretary, Allianz Global Investors Fund Management LLC; Executive Vice President of Allianz Global Investors of America L.P; Vice President, Secretary and Chief Legal Officer of 80 funds in the Fund Complex; Secretary and Chief Legal Officer of The Korea Fund, Inc.
Scott Whisten *Date of Birth: 3/13/71* *Assistant Treasurer since: 2007*	Senior Vice President, Allianz Global Investors Fund Management LLC; Assistant Treasurer of 80 funds in the Fund Complex.
Richard J. Cochran *Date of Birth: 1/23/61* *Assistant Treasurer since: 2008*	Vice President, Allianz Global Investors Fund Management LLC, Assistant Treasurer of 80 funds in the Funds Complex and The Korea Fund, Inc. Formerly, Tax Manager, Teacher Insurance Annuity Association/College Retirement Equity Fund (TIAA-CREF) (2002-2008).
Orhan Dzemaili *Date of Birth: 4/18/74* *Assistant Treasurer since: 2011*	Vice President, Allianz Global Investors Fund Management LLC; Assistant Treasurer of 80 funds in the Fund Complex. Formerly, Accounting Manager, Prudential Investments LLC (2004-2007).
Youse E. Guia *Date of Birth: 9/3/72* *Chief Compliance Officer since: 2004*	Senior Vice President and Chief Compliance Officer, Allianz Global Investors of America L.P.; Chief Compliance Officer of 80 funds in the Fund Complex and of The Korea Fund, Inc.
Lagan Srivastava *Date of Birth: 9/20/77* *Assistant Secretary since: 2006*	Vice President, Allianz Global Investors of America L.P.; Assistant Secretary of 80 funds in the Fund Complex and of The Korea Fund, Inc.

Officers hold office at the pleasure of the Board and until their successors are appointed and qualified or until their earlier resignation or removal.

Investment Manager
Allianz Global Investors Fund Management LLC
1633 Broadway
New York, NY 10019

Sub-Adviser
Pacific Investment Management Company LLC
840 Newport Center Drive
Newport Beach, CA 92660

Custodian & Accounting Agent
State Street Bank & Trust Co.
Lafayette Corporate Center, 5th Floor
2 Avenue De Lafayette
Boston, MA 02111

Transfer Agent, Dividend Paying Agent and Registrar
BNY Mellon
P.O. Box 43027
Providence, RI 02940-3027

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

Legal Counsel
Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston, MA 02199

This report, including the financial information herein, is transmitted to the shareholders of PIMCO Municipal Income Fund II, PIMCO California Municipal Income Fund II and PIMCO New York Municipal Income Fund II for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase their common shares in the open market.

The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of their fiscal year on Form N-Q. Each Fund s Form N-Q is available on the SEC s website at www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds website at www.allianzinvestors.com/closedendfunds.

Information on the Funds is available at www.allianzinvestors.com/closedendfunds or by calling the Funds shareholder servicing agent at (800) 254-5197.

Receive this report electronically and eliminate paper mailings. To enroll, go to **www.allianzinvestors.com/edelivery.**

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ITEM 2. CODE OF ETHICS

(a) As of the end of the period covered by this report, the registrant has adopted a code of ethics (the Section 406 Standards for Investment Companies Ethical Standards for Principal Executive and Financial Officers) that applies to the registrant s Principal Executive Officer and Principal Financial Officer; the registrant s Principal Financial Officer also serves as the Principal Accounting Officer. The registrant undertakes to provide a copy of such code of ethics to any person upon request, without charge, by calling 1-800-254-5197. The code of ethics is included as an Exhibit 99.CODE ETH hereto.

(b) During the period covered by this report, there were not any amendments to a provision of the code of ethics adopted in 2(a) above.

(c) During the period covered by this report, there were not any waivers or implicit waivers to a provision of the code of ethics adopted in 2(a) above.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

The registrant s Board has determined that Paul Belica and James A. Jacobson, members of the Board s Audit Oversight Committee are audit committee financial experts, and that they are independent, for purposes of this Item.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

a) Audit fees. The aggregate fees billed for each of the last two fiscal years (the Reporting Periods) for professional services rendered by the Registrant s principal accountant (the Auditor) for the audit of the Registrant s annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were $55,006 in 2010 and $55,276 in 2011.

b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the principal accountant that are reasonably related to the performance of the audit registrant s financial statements and are not reported under paragraph (e) of this Item were $15,582 in 2010 and $15,700 in 2011. These services consist of accounting consultations, agreed upon procedure reports (inclusive of annual review of basic maintenance testing associated with the Preferred Shares), attestation reports and comfort letters.

c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax service and tax planning (Tax Services) were $10,000 in 2010 and $10,150 in 2011. These services consisted of review or preparation of U.S. federal, state, local and excise tax returns and calculation of excise tax distributions.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor to the Registrant.

e) 1. Audit Committee Pre-Approval Policies and Procedures. The Registrant s Audit Committee has established policies and procedures for pre-approval of all audit and permissible non-audit services by the Auditor for the Registrant, as well as the Auditor s engagements related directly to the operations and financial reporting of the Registrant. The Registrant s policy is stated below.

PIMCO Municipal Income Fund II (the Fund)

AUDIT OVERSIGHT COMMITTEE POLICY FOR PRE-APPROVAL OF SERVICES PROVIDED BY THE INDEPENDENT ACCOUNTANTS

The Fund s Audit Oversight Committee (Committee) is charged with the oversight of the Fund s financial reporting policies and practices and their internal controls. As part of this responsibility, the Committee must pre-approve any independent accounting firm s engagement to render audit and/or permissible non-audit services, as required by law. In evaluating a proposed engagement by the independent accountants, the Committee will assess the effect that the engagement might reasonably be expected to have on the accountant s independence. The Committee s evaluation will be based on:

a review of the nature of the professional services expected to provided,

the fees to be charged in connection with the services expected to be provided,

a review of the safeguards put into place by the accounting firm to safeguard independence, and

periodic meetings with the accounting firm.

POLICY FOR AUDIT AND NON-AUDIT SERVICES TO BE PROVIDED TO THE FUND

On an annual basis, the Fund s Committee will review and pre-approve the scope of the audit of the Fund and proposed audit fees and permitted non-audit (including audit-related) services that may be performed by the Fund s independent accountants. At least annually, the Committee will receive a report of all audit and non-audit services that were rendered in the previous calendar year pursuant to this Policy. In addition to the Committee s pre-approval of services pursuant to this Policy, the engagement of the independent accounting firm for any permitted non-audit service provided to the Fund will also require the separate written pre-approval of the President of the Fund, who will confirm, independently, that the accounting firm s engagement will not adversely affect the firm s independence. All non-audit services performed by the independent accounting firm will be disclosed, as required, in filings with the Securities and Exchange Commission.

AUDIT SERVICES

The categories of audit services and related fees to be reviewed and pre-approved annually by the Committee are:

Annual Fund financial statement audits
Seed audits (related to new product filings, as required)
SEC and regulatory filings and consents
Semiannual financial statement reviews

AUDIT-RELATED SERVICES

The following categories of audit-related services are considered to be consistent with the role of the Fund s independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm s independence:

A-2

- Accounting consultations
- Fund merger support services
- Agreed upon procedure reports (inclusive of quarterly review of Basic Maintenance testing associated with issuance of Preferred Shares and semiannual report review)
- Other attestation reports
- Comfort letters
- Other internal control reports

Individual audit-related services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chair (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed $250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

TAX SERVICES

The following categories of tax services are considered to be consistent with the role of the Fund s independent accountants and services falling under one of these categories will be pre-approved by the Committee on an annual basis if the Committee deems those services to be consistent with the accounting firm s independence:

Tax compliance services related to the filing or amendment of the following:

- Federal, state and local income tax compliance; and, sales and use tax compliance
- Timely RIC qualification reviews
- Tax distribution analysis and planning
- Tax authority examination services
- Tax appeals support services
- Accounting methods studies
- Fund merger support service
- Other tax consulting services and related projects

Individual tax services that fall within one of these categories and are not presented to the Committee as part of the annual pre-approval process described above, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed $250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

PROSCRIBED SERVICES

The Fund s independent accountants will not render services in the following categories of non-audit services:

- Bookkeeping or other services related to the accounting records or financial statements of the Fund
- Financial information systems design and implementation
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
- Actuarial services
- Internal audit outsourcing services
- Management functions or human resources
- Broker or dealer, investment adviser or investment banking services
- Legal services and expert services unrelated to the audit

Any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible

PRE-APPROVAL OF NON-AUDIT SERVICES PROVIDED TO OTHER ENTITIES WITHIN THE FUND COMPLEX

The Committee will pre-approve annually any permitted non-audit services to be provided to Allianz Global Investors Fund Management LLC (Formerly, PA Fund Management LLC) or any other investment manager to the Funds (but not including any sub-adviser whose role is primarily portfolio management and is sub-contracted by the investment manager) (the Investment Manager) and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund (including affiliated sub-advisers to the Fund), provided, in each case, that the engagement relates directly to the operations and financial reporting of the Fund (such entities, including the Investment Manager, shall be referred to herein as the Accounting Affiliates). Individual projects that are not presented to the Committee as part of the annual pre-approval process, may be pre-approved, if deemed consistent with the accounting firm s independence, by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this responsibility has been delegated) so long as the estimated fee for those services does not exceed $250,000. Any such pre-approval shall be reported to the full Committee at its next regularly scheduled meeting.

Although the Committee will not pre-approve all services provided to the Investment Manager and its affiliates, the Committee will receive an annual report from the Fund s independent accounting firm showing the aggregate fees for all services provided to the Investment Manager and its affiliates.

DE MINIMUS EXCEPTION TO REQUIREMENT OF PRE-APPROVAL OF NON-AUDIT SERVICES

With respect to the provision of permitted non-audit services to a Fund or Accounting Affiliates, the pre-approval requirement is waived if:

(1) The aggregate amount of all such permitted non-audit services provided constitutes no more than (i) with respect to such services provided to the Fund, five percent (5%) of the total amount of revenues paid by the Fund to its independent accountant during the fiscal year in which the services are provided, and (ii) with respect to such services provided to Accounting Affiliates, five percent (5%) of the total amount of revenues paid to the Fund s independent accountant by the Fund and the Accounting Affiliates during the fiscal year in which the services are provided;

(2) Such services were not recognized by the Fund at the time of the engagement for such services to be non-audit services; and

(3) Such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by the Committee Chairman (or any other Committee member who is a disinterested trustee under the Investment Company Act to whom this Committee Chairman or other delegate shall be reported to the full Committee at its next regularly scheduled meeting.

e) 2. No services were approved pursuant to the procedures contained in paragraph (C) (7) (i) (C) of Rule 2-01 of Registration S-X.

f) Not applicable

g) Non-audit fees. The aggregate non-audit fees billed by the Auditor for services rendered to the Registrant, and rendered to the Adviser, for the 2010 Reporting Period was $3,618,948 and the 2011 Reporting Period was $5,077,810.

h) Auditor Independence. The Registrant s Audit Oversight Committee has considered whether the provision of non-audit services that were rendered to the Adviser which were not pre-approved is compatible with maintaining the Auditor s independence.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

The Fund has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee of the Fund is comprised of Paul Belica, Bradford K. Gallagher, James A. Jacobson, Hans W. Kertess, William B. Ogden, IV, Alan Rappaport, and Deborah A. Zoullas.

ITEM 6. INVESTMENTS

(a) The registrant s schedule of investments is included as part of the report to shareholders filed under Item 1 of this form.
(b) Not applicable

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

PIMCO MUNICIPAL INCOME FUND II

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II

PIMCO NEW YORK MUNICIPAL INCOME FUND II

(each a "TRUST")

PROXY VOTING POLICY

1. It is the policy of each Trust that proxies should be voted in the interest of its shareholders, as determined by those who are in the best position to make this determination. Each Trust believes that the firms and/or persons purchasing and selling securities for the Trust and analyzing the performance of the Trust's securities are in the best position and have the information necessary to vote proxies in the best interests of the Trust and its shareholders, including in situations where conflicts of interest may arise between the interests of shareholders, on one hand, and the interests of the investment adviser, a sub-adviser and/or any other affiliated person of the Trust, on the other. Accordingly, each Trust's policy shall be to delegate proxy voting responsibility to those entities with portfolio management responsibility for the Trust.

2. Each Trust delegates the responsibility for voting proxies to Allianz Global Investors Fund Management LLC ("AGIFM"), which will in turn delegate such responsibility to the sub-adviser of the particular Trust. AGIFM's Proxy

Voting Policy Summary is attached as Appendix A hereto. Summaries of the detailed proxy voting policies of the Trusts' current sub-advisers are set forth in Appendix B attached hereto. Such summaries may be revised from time to time to reflect changes to the sub-advisers' detailed proxy voting policies.

3. The party voting the proxies (i.e., the sub-adviser) shall vote such proxies in accordance with such party's proxy voting policies and, to the extent consistent with such policies, may rely on information and/or recommendations supplied by others.

4. AGIFM and each sub-adviser of a Trust with proxy voting authority shall deliver a copy of its respective proxy voting policies and any material amendments thereto to the applicable Board of the Trust promptly after the adoption or amendment of any such policies.

5. The party voting the proxy shall: (i) maintain such records and provide such voting information as is required for the Trusts' regulatory filings including, without limitation, Form N-PX and the required disclosure of policy called for by

Item 18 of Form N-2 and Item 7 of Form N-CSR; and (ii) shall provide such additional information as may be requested, from time to time, by the Board or the Trusts' Chief Compliance Officer.

6. This Proxy Voting Policy Statement, the Proxy Voting Policy Summary of AGIFM and summaries of the detailed proxy voting policies of each sub-adviser of a Trust with proxy voting authority and how each Trust voted proxies relating to portfolio securities held during the most recent twelve month period ending June 30, shall be made available (i) without charge, upon request, by calling 1-800-254-5197; (ii) on the Trusts' website at www.allianzinvestors.com; and (iii) on the Securities and Exchange Commission's ("SEC's") website at http://www.sec.gov. In addition, to the extent required by applicable law or determined by the Trusts' Chief Compliance Officer or Board of Trustees, the Proxy Voting Policy Summary of AGIFM and summaries of the detailed proxy voting policies of each sub-adviser with proxy voting authority shall also be included in the Trusts' Registration Statements or Form N-CSR filings.

Appendix A

ALLIANZ GLOBAL INVESTORS FUND MANAGEMENT LLC ("AGIFM")

1. It is the policy of AGIFM that proxies should be voted in the interest of the shareholders of the applicable fund, as determined by those who are in the best position to make this determination. AGIFM believes that the firms and/or persons purchasing and selling securities for the funds and analyzing the performance of the funds' securities are in the best position and have the information necessary to vote proxies in the best interests of the funds and their shareholders, including in situations where conflicts of interest may arise between the interests of shareholders, on one hand, and the interests of the investment adviser, a sub-adviser and/or any other affiliated person of the fund, on the other. Accordingly, AGIFM's policy shall be to delegate proxy voting responsibility to those entities with portfolio management responsibility for the funds.

2. AGIFM, for each fund which it acts as an investment adviser, delegates the responsibility for voting proxies to the sub-adviser for the respective fund, subject to the terms hereof.

3. The party voting the proxies (e.g., the sub-adviser) shall vote such proxies in accordance with such party's proxy voting policies and, to the extent consistent with such policies, may rely on information and/or recommendations supplied by others.

4. AGIFM and each sub-adviser of a fund shall deliver a copy of its respective proxy voting policies and any material amendments thereto to the board of the relevant fund promptly after the adoption or amendment of any such policies.

5. The party voting the proxy shall: (i) maintain such records and provide such voting information as is required for such funds' regulatory filings including, without limitation, Form N-PX and the required disclosure of policy called for by Item 18 of Form N-2 and Item 7 of Form N-CSR; and (ii) shall provide such additional information as may be requested, from time to time, by such funds' respective boards or chief compliance officers.

6. This Proxy Voting Policy Summary and summaries of the proxy voting policies for each sub-adviser of a fund advised by AGIFM shall be available (i) without charge, upon request, by calling 1-800-254-5197 and (ii) at www.allianzinvestors.com. In addition, to the extent required by applicable law or determined by the relevant fund's

board of directors/trustees or chief compliance officer, this Proxy Voting Policy Summary and summaries of the detailed proxy voting policies of each sub-adviser and each other entity with proxy voting authority for a fund advised by AGIFM shall also be included in the Registration Statement or Form N-CSR filings for the relevant funds.

Appendix B

PACIFIC INVESTMENT MANAGEMENT COMPANY LLC

Pacific Investment Management Company LLC ("PIMCO") has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Advisers Act. The Proxy Policy applies generally to voting and/or consent rights of PIMCO, on behalf of each Fund, with respect to debt securities, including but not limited to, plans of reorganization, and waivers and consents under applicable indentures. The Proxy Policy does not apply, however, to consent rights that primarily entail decisions to buy or sell investments, such as tender or exchange offers, conversions, put options, redemption and Dutch auctions. The Proxy Policy is designed and implemented in a manner reasonably expected to ensure that voting and consent rights are exercised in the best interests of the Funds and their shareholders.

PIMCO exercises voting and consent rights directly with respect to debt securities held by a Fund. PIMCO considers each proposal regarding a debt security on a case-by-case basis taking into consideration any relevant contractual obligations as well as other relevant facts and circumstances at the time of the vote. In general, PIMCO reviews and considers corporate governance issues related to proxy matters and generally supports proposals that foster good corporate governance practices. PIMCO may vote proxies as recommended by management on routine matters related to the operation of the issuer and on matters not expected to have a significant economic impact on the issuer and/or its shareholders.

PIMCO may determine not to vote a proxy for a debt security if: (1) the effect on the applicable Fund's economic interests or the value of the portfolio holding is insignificant in relation to the Fund's portfolio; (2) the cost of voting the proxy outweighs the possible benefit to the applicable Fund, including, without limitation, situations where a jurisdiction imposes share blocking restrictions which may affect the ability of the portfolio managers to effect trades in the related security; or (3) PIMCO otherwise has determined that it is consistent with its fiduciary obligations not to vote the proxy.

For all debt security proxies, PIMCO will review the proxy to determine whether there is a material conflict between PIMCO and the applicable Fund or between the Fund and another Fund or PIMCO-advised account. If no material conflict exists, the proxy will be voted according to the portfolio managers' recommendation. If a material conflict does exist, PIMCO will seek to resolve the conflict in good faith and in the best interests of the applicable Fund, as provided by the Proxy Policy. The Proxy Policy permits PIMCO to seek to resolve material conflicts of interest by pursuing any one of several courses of action. With respect to material conflicts of interest between PIMCO and a Fund, the Proxy Policy permits PIMCO to either: (i) convene a committee to assess and resolve the conflict (the "Proxy Conflicts Committee"); or (ii) vote in accordance with protocols previously established by the Proxy Conflicts Committee with respect to specific types of conflicts. With respect to material conflicts of interest between a Fund and one or more other Funds or PIMCO-advised accounts, the Proxy Policy permits PIMCO to: (i) designate a PIMCO portfolio manager who is not subject to the conflict to determine how to vote the proxy if the conflict exists between two Funds or accounts with at least one portfolio manager in common; or (ii) permit the respective portfolio managers to vote the proxies in accordance with each Fund's or account's best interests if the conflict exists between Funds or accounts managed by different portfolio managers.

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ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

(a)(1)

As of August 1, 2011, the following individual has primary responsibility for the day-to-day implementation of the PIMCO Municipal Income Fund II (PML), PIMCO California Municipal Income Fund II (PCK) and PIMCO New York Municipal Income Fund II (PNI) (each a “Fund” and collectively, the “Funds”):

Joe Deane
Mr. Deane has been the portfolio manager for the Funds since July 21, 2011. Mr. Deane, an Executive Vice President at Pacific Investment Management Company LLC ("PIMCO"), joined PIMCO in 2011 and is the head of the municipal bond portfolio management team. Prior to joining PIMCO, he served as Managing Director, Co-Head of the Tax-Exempt Department for Western Asset Management Company. Previously he was Managing Director, Head of Tax-Exempt Investments for Smith Barney/Citigroup Asset Management from 1993 to 2005. He has 41 years of investment experience and holds a bachelor's degree from Iona College.

(a)(2)

The following summarizes information regarding each of the accounts, excluding the respective Fund managed by the Portfolio Manager as of July 21, 2011, including accounts managed by a team, committee, or other group that includes the Portfolio Manager. Unless mentioned otherwise, the advisory fee charged for managing each of the accounts listed below is not based on performance.

		Registered Investment Companies		Other Pooled Investment Vehicles		Other Accounts*	
PM	Fund	#	AUM($million)	#	AUM($million)	#	AUM($million)
Joe Deane	PML	18	4,471,103,336	0	0	0	0
	PCK	18	5,070,030,539	0	0	0	0
	PNI	18	5,280,807,085	0	0	0	0

PIMCO anticipates that the needs of the Funds for services may create certain issues, including the following; although the issuer described below would not necessarily be different than those raised for PIMCO’s other accounts.

A portfolio manager may be responsible for different investment mandates. From time to time, potential conflicts of interest may arise between a portfolio manager’s management of the investments of the Funds, and the management of other accounts. In certain situations, the other accounts might have similar investment objectives or strategies as the Funds, track the same index the Funds tracks, or otherwise hold, purchase, or sell securities that are eligible to be held, purchased or sold by the Funds. In other instances, the other accounts might have different

investment objectives or strategies than the Funds. Described below are specific conflicts that may arise due to a portfolio manager's management of multiple accounts.

Knowledge and Timing of Portfolio Trades: A potential conflict of interest may arise as a result of a portfolio manager's day-to-day management of the Funds. In the course of managing the Funds, a portfolio manager knows the size, timing and possible market impact of the Funds' trades. Therefore, it is theoretically possible that a portfolio manager could use this information to the advantage of other accounts he manages and to the possible detriment of the Funds. The portfolio manager attempts to mitigate this conflict using some of the policies described below.

Investment Opportunities: A potential conflict of interest may arise as a result of a portfolio manager's management of a number of accounts with varying investment guidelines. Often, an investment opportunity may be suitable for both the Funds and other accounts managed by a portfolio manager, but may not be available in sufficient quantities for both the Funds and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by the Funds and another account. PIMCO has adopted policies and procedures reasonably designed to allocate investment opportunities on a fair and equitable basis over time. Under PIMCO's allocation procedures, investment opportunities are allocated among various investment strategies based on individual account investment guidelines and PIMCO's investment outlook. PIMCO has also adopted additional procedures to complement the general trade allocation policy that are designed to address potential conflicts of interest due to the side-by-side management of the Funds and certain pooled investment vehicles, including investment opportunity allocation issues.

Performance Fees: A portfolio manager may advise certain accounts for which the advisory fee is based entirely or partially on performance. Performance fee arrangements may create a conflict of interest for a portfolio manager in that such portfolio manager may have an incentive to allocate the investment opportunities that he believes might be the most profitable to such other accounts instead of allocating them to the Funds. PIMCO has adopted policies and procedures reasonably designed to allocate investment opportunities between the Funds and such other accounts on a fair and equitable basis over time.

(a) (3)

As of July 21, 2011, the following explains the compensation structure of the individual that shares primary responsibility for day-to-day portfolio management of the Fund:

PIMCO has adopted a Total Compensation Plan for its professional level employees, including its portfolio managers, that is designed to pay competitive compensation and reward performance, integrity and teamwork consistent with the firm's mission statement. The Total Compensation Plan includes an incentive component that rewards high performance standards, work ethic and consistent individual and team contributions to the firm. The compensation of portfolio managers consists of a base salary, discretionary performance bonus, and may include an equity or long term incentive component.

Portfolio managers who are Managing Directors of PIMCO also receive compensation from PIMCO's profits. Certain employees of PIMCO, including portfolio managers, may elect to defer compensation through PIMCO's deferred compensation plan. PIMCO also offers its employees a non-contributory defined contribution plan through which PIMCO makes a contribution based on the employee's compensation.

The Total Compensation Plan consists of three components:

• **Base Salary** - Base salary is determined based on core job responsibilities, market factors and business considerations. Salary levels are reviewed annually or when there is a significant change in job responsibilities or the market.

• **Performance Bonus** – Performance bonuses are designed to reward high performance standards, work ethic and consistent individual and team contributions to the firm. Each professional and his or her supervisor will agree upon performance objectives to serve as the basis for performance evaluation during the year. The objectives will outline individual goals according to pre-established measures of group or department success. Achievement against these goals is measured by the employee and supervisor will be an important, but not exclusive, element of the bonus decision process.

• **Equity or Long Term Incentive Compensation –** Equity allows certain professionals to participate in the long-term growth of the firm. The M unit program provides for annual option grants which vest over a number of years and may convert into PIMCO equity that shares in the profit distributions of the firm. M Units are non-voting common equity of PIMCO and provide a mechanism for individuals to build a significant equity stake in PIMCO over time. Option awards may represent a significant portion of individual's total compensation.

In certain countries with significant tax implications for employees to participate in the M Unit Option Plan, PIMCO continues to use the Long Term Incentive Plan ("LTIP") in place of the M Unit Option Plan. The LTIP provides cash awards that appreciate or depreciate based upon the performance of PIMCO's parent company, Allianz Global Investors, and PIMCO over a three-year period. The aggregate amount available for distribution to participants is based upon Allianz Global Investors' profit growth and PIMCO's profit growth.

Participation in the M Unit Option Plan and LTIP is contingent upon continued employment at PIMCO.

In addition, the following non-exclusive list of qualitative criteria may be considered when specifically determining the total compensation for portfolio managers:

• 3-year, 2-year and 1-year dollar-weighted and account-weighted, pre-tax investment performance as judged against the applicable benchmarks for each account managed by a portfolio manager (including the Funds) and relative to applicable industry peer groups;

- Appropriate risk positioning that is consistent with PIMCO's investment philosophy and the Investment Committee/CIO approach to the generation of alpha;
- Amount and nature of assets managed by the portfolio manager;
- Consistency of investment performance across portfolios of similar mandate and guidelines (reward low dispersion);
- Generation and contribution of investment ideas in the context of PIMCO's secular and cyclical forums, portfolio strategy meetings, Investment Committee meetings, and on a day-to-day basis;
- Absence of defaults and price defaults for issues in the portfolios managed by the portfolio manager;
- Contributions to asset retention, gathering and client satisfaction;
- Contributions to mentoring, coaching and/or supervising; and

- Personal growth and skills added.

A portfolio manager's compensation is not based directly on the performance of any Fund or any other account managed by that portfolio manager.

Profit Sharing Plan. Instead of a bonus, portfolio managers who are Managing Directors of PIMCO receive compensation from a non-qualified profit sharing plan consisting of a portion of PIMCO's net profits. Portfolio managers who are Managing Directors receive an amount determined by the Partner Compensation Committee, based upon an individual's overall contribution to the firm.

(a)(4)

The following summarizes the dollar range of securities the portfolio manager for the Fund beneficially owned of the Fund that he managed as of July 21, 2011.

PIMCO Municipal Income Fund II

PIMCO California Municipal Income Fund II

PIMCO New York Municipal Income Fund II

Portfolio Manager	Dollar Range of Equity Securities in the Fund
Joe Deane	None

ITEM 9.

Purchase of Equity Securities by Closed-End Management Investment Company and Affiliated Companies

None

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund s Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant s President and Chief Executive Officer and Treasurer, Principal Financial Accounting Officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c)), as amended) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrants internal control over financial reporting.

ITEM 12. EXHIBITS

(a) (1) Exhibit 99.CODE ETH - Code of Ethics

(a) (2) Exhibit 99.302 Cert. - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(a)(3) Not applicable

(b) Exhibit 99.906 Cert.   Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PIMCO Municipal Income Fund II

By: /s/ Brian S. Shlissel

President and Chief Executive Officer

Date: August 1, 2011

By: /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting Officer

Date: August 1, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Brian S. Shlissel

President and Chief Executive Officer

Date: August 1, 2011

By: /s/ Lawrence G. Altadonna

Treasurer, Principal Financial & Accounting Officer

Date: August 1, 2011

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d>

* This gain (loss) arises due to the market returns being higher (lower) than the assumed longer-term rate of return. This gives rise to higher (lower) expected values of variable annuity assets under management with a resulting effect on the projected value of future account values and hence future profitability from altered fees. For half year 2009, the actual rate of return was approximately positive 5.3 per cent compared to the assumed longer-term rate of return of 3.55 per cent for a six month period.

(iii)

UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations for half year 2009 arise on the following types of business:

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
With-profits (note (a))	**(270)**	(855)	(2,083)
Shareholder-backed annuity (note (b))	**(60)**	(34)	(213)
Unit-linked and other (note (c))	**(33)**	(70)	(111)
	(363)	(959)	(2,407)

Notes

(a) The short-term fluctuations in investment returns for with-profits business in half year 2009 of £(270) million represents the negative 1 per cent actual investment return on the PAC with-profits fund against an assumed rate of 3.3 per cent for a six month period.

(b) Short-term fluctuations in investment returns on shareholder-backed annuity business primarily represent value movements on assets backing the capital of the business.

(c) The charge of £(33) million relates primarily to unit-linked business and predominantly represents the capitalised loss of future fees from the fall in market values experienced during the period.

(iv) **IGD hedge costs**

The IGD hedge costs are discussed in more detail in note F of the IFRS financial statements.

(v) **Other operations**

The credit of £75 million for other operations for half year 2009 primarily arises from unrealised value movements of £69 million in swaps held centrally to manage Group assets and liabilities.

8. Effect of changes in economic assumptions and time value of cost of options and guarantees

The (losses) profits on changes in economic assumptions and time value of cost of options and guarantees resulting from changes in economic factors for in-force business included within profit (loss) before tax (including actual investment returns) arise as follows:

Half year 2009			Half year 2008			Full year 2008		
Change in	**Change in**	**Total**	Change in	Change in	Total	Change in	Change in	Total

	economic assumptions	**time value of cost of options and guarantees**		economic assumptions	time value of cost of options and guarantees		economic assumptions	time value of cost of options and guarantees	
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Asian operations (note (i))	**(86)**	**(3)**	**(89)**	(33)	(12)	(45)	157	0	157
US operations (note (ii))	**(60)**	**24**	**(36)**	23	2	25	267	11	278
UK insurance operations (note (iii))	**(264)**	**5**	**(259)**	(78)	(2)	(80)	(783)	(50)	(833)
Total	**(410)**	**26**	**(384)**	(88)	(12)	(100)	(359)	(39)	(398)

Notes

(i) The effect of changes in economic assumptions in Asia for half year 2009 of £(86) million reflect the increases in risk discount rates and fund earned rates.

(ii) The charge for the effect of changes in economic assumptions for half year 2009 for US operations of £(60) million primarily arises as a result of the impact of an increase in the risk discount rate of £(312) million, partially offset by the impact of an increase in the variable annuity separate account return of £278 million, both movements reflecting the 130 bps increase in the US 10-year treasury bond rate as shown in note 3 above.

(iii) The effect of changes in economic assumptions of a charge of £(264) million for UK insurance operations comprises the effect of:

	Half year 2009			Half year 2008			Full year 200
	Shareholder-backed annuity business (note (a))	**With-profits and other business (note (b))**	**Total**	Shareholder-backed annuity business	With-profits and other business	Total	Shareholder-backed annuity business (note (c))
	£m	**£m**	**£m**	£m	£m	£m	£m
Effect of change in expected long-term rates of return	**(264)**	**78**	**(186)**	64	387	451	83
(Increase) decrease in risk discount rates	**105**	**(113)**	**(8)**	(187)	(355)	(542)	(394)
Other changes	**-**	**(70)**	**(70)**	(3)	16	13	(6)
	(159)	**(105)**	**(264)**	(126)	48	(78)	(317)

Notes

(a) The charge of £(264) million for shareholder-backed annuity business for half year 2009 reflects primarily an increase in the allowance for best estimate expected defaults included in the long-term expected rate of return.

(b) For with-profits and other business for half year 2009 the increase in fund earned rates and risk discount rates primarily reflect the increase in gilt rates of 0.4 per cent for half year 2009 as shown in note 3.

(c) For shareholder-backed annuity business for full year 2008, the impact of the change in risk discount rates of £(394) million includes £(400) million in respect of strengthening credit risk assumptions (excluding the strengthening required in respect of the £2.8 billion rebalancing the assets portfolios). The impact of the change in portfolio yields of £83 million for full year 2008 includes a profit of £231 million in respect of the rebalancing, calculated by reference to changes in credit spreads since 31 December 2006.

9. Exchange movements

To be consistent with the basis applied for IFRS reporting, EEV basis results for the period are translated at average exchange rates. Shareholders' funds are translated at period end rates with exchange movements recognised in EEV basis shareholders' equity as follows:

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
Long-term business operations:			
Asian operations	**(686)**	42	1,170
US operations	**(552)**	0	1,264
	(1,238)	42	2,434
Other operations (primarily reflecting US$ denominated holding company borrowings and hedge positions)	**140**	(7)	(424)
Total	**(1,098)**	35	2,010

10. Holding company net borrowings at market value

Holding company net borrowings at market value are set out in the table below. In May 2009, the Company repaid maturing £249 million senior debt and in the same month the Company issued £400 million subordinated notes in part to replace the maturing debt. In July 2009, the Company issued US$750 million perpetual subordinated capital securities.

	30 Jun 2009	30 Jun 2008	31 Dec 2008
	£m	£m	£m
Holding company borrowings:			
IFRS basis	**2,747**	2,401	2,785
Mark to market value adjustment	**(634)**	(201)	(802)
EEV basis (note)	**2,113**	2,200	1,983
Holding company* cash and short-term investments	**(1,252)**	(1,498)	(1,165)
Holding company net borrowings	**861**	702	818

*Including central finance subsidiaries.

Note

EEV basis holding company borrowings comprise:

	30 Jun 2009	30 Jun 2008	31 Dec 2008
	£m	£m	£m
Perpetual subordinated capital securities (Innovative Tier 1)	**612**	633	513
Subordinated notes (Lower Tier 2)	**1,056**	786	737
Senior debt	**445**	781	733
	2,113	2,200	1,983

11. <u>Group analysis of underlying business activity</u>

The following analysis shows the movement in the embedded value of the long-term operations arising from the Group's underlying business activity and the effects of the current exceptional dislocated market conditions.

Group

	Free surplus (note (ii))	**Required capital (note (iii))**	**Net worth**	**Value of in-force**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Underlying movement:					

New business	(331)	220	(111)	590	479
Business in force					
- expected transfer	792	(198)	594	(594)	-
- unwind of discount, effects of changes in operating assumptions, operating experience variance and other operating items	10	36	46	398	444
	471	58	529	394	923
Investment movements and effect of changes in economic assumptions (note (iv))	(501)	189	(312)	(407)	(719)
Profit on sale of Taiwan agency business (note 12)	987	(1,232)	(245)	393	148
	486	(1,043)	(557)	(14)	(571)
Net cash flows to parent company (note (vii))	(314)	-	(314)	-	(314)
Exchange movements, timing differences and other items	275	(333)	(58)	(828)	(886)
Net movement	918	(1,318)	(400)	(448)	(848)
Balance at 1 January 2009	447	4,117	4,564	9,958	14,522
Balance at 30 June 2009	1,365	2,799	4,164	9,510	13,674

Notes

(i) All figures are shown net of tax.

(ii) Free surplus is the market value of the net worth in excess of the capital required to support the covered business. Where appropriate adjustments are made to the regulatory basis net worth from the local regulatory basis so as to include backing assets movements at fair value rather than cost so as to comply with the EEV principles.

(iii) Prudential has based required capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements, as described in note 2.

(iv) Investment movements and effect of changes in economic assumptions represent:

	Free surplus (note (ii))	**Required capital (note (iii))**	**Net worth**	**Value of in-force**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Investment movements (notes (v) and (vi))	(356)	(2)	(358)	(98)	(456)
Effect of changes in economic assumptions (note (vi))	(145)	191	46	(309)	(263)
	(501)	189	(312)	(407)	(719)

(v) Investment movements primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations together with the shareholders' 10 per cent interest in the value movements on the assets in the with-profits funds.

(vi) The effect of changes in economic assumptions includes the impact of an increase in required capital for Jackson of £262 million driven by impairments and credit downgrades. Separately, investment movements include the effect of impairments and credit downgrades in excess of the expected longer-term level reflected within operating profit.

(vii) Net cash flows to parent company reflect the flows for long-term business operations as included in the holding company cash flow at transaction rate.

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

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
Profit on sale and results for Taiwan agency business	**91**	(90)	(248)

(i) Half year 2009

On 20 February 2009, the Group announced the intended sale of the agency business of its Taiwan life operation to China Life Insurance of Taiwan for consideration of NT$1. The economic transfer date for the purposes of determining the net assets transferred was 28 February 2009. The sale was completed, following regulatory approval on 19 June 2009.

The profit on sale comprises:

	£m
Proceeds	-
Net asset value attributable to equity holders of Company and provision for restructuring costs	134
Goodwill written off	(44)
Estimate as announced on 20 February 2009	90
Plus: effect of completion and other adjustments	1
	91
Representing:	
Profit arising from long-term business operations (note 11)	148
Goodwill written off	(44)
Adjustments in respect of restructuring costs borne by non-covered business	(13)
	91

(ii) Half year and full year 2008 comparative results

The results for half year and full year 2008 of £(90) million and £(248) million respectively comprise the total result for the sold business i.e. including operating profit, short-term fluctuations in investment returns and the effect of changes in economic assumptions and the time value of cost of options and guarantees.

In order to facilitate comparisons of the Group's retained businesses, the presentation of the EEV basis results has been adjusted to show separately the result for the sold Taiwan agency business, as explained below:

	Half year 2008			Full year 2008		
	As previously published	Adjustment	Adjusted	As previously published	Adjustment	Adjusted
	£m	£m	£m	£m	£m	£m
APE new business	1,513*	(71)	1,442	3,025	(146)	2,879
New business profit	602	(47)	555	1,307	(107)	1,200
In-force profit	795**	(46)	749	1,625	11	1,636
Asset management	181	-	181	345	-	345
Other results	(148)**	13	(135)	(316)	-	(316)
Operating profit based on longer-term investment returns	1,430	(80)	1,350	2,961	(96)	2,865
Short-term fluctuations in investment returns	(1,949)	81	(1,868)	(5,127)	160	(4,967)
Mark to market value movement on core borrowings	171	-	171	656	-	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(98)	-	(98)	(15)	1	(14)
Effect of changes in economic assumptions and the time value of cost of options and guarantees	(189)	89	(100)	(581)	183	(398)
Result of sold Taiwan Agency business	Included above	(90)	(90)	Included above	(248)	(248)
Loss before tax	(635)	-	(635)	(2,106)	-	(2,106)

* After including £8 million for the Group's UK health insurance joint venture operation, PruHealth, to be consistent with the full year 2008 basis of preparation.

** After adjusting by £14 million for UK general insurance commission as shown separately in these statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m

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

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*

Half year	Half year	Full year
2009	2008	2008
£m	£m	£m

Loss for the period	**(258)**	(114)	(391)
Other comprehensive income (loss):			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the period	**(292)**	32	391
Related tax	**(6)**	14	119
	(298)	46	510
Available-for-sale securities:			
Unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Unrealised holding gains (losses) arising during the period	**662**	(774)	(2,482)
Add back net losses included in the income statement on disposal and impairment	**146**	97	378
Total (note M)	**808**	(677)	(2,104)
Related change in amortisation of deferred income and acquisition costs	**(235)**	244	831
Related tax	**(150)**	148	442
	423	(285)	(831)
Other comprehensive income (loss) for the period, net of related tax	**125**	(239)	(321)
Total comprehensive loss for the period	**(133)**	(353)	(712)
Attributable to:			
Equity holders of the Company	**(129)**	(355)	(717)
Minority interests	**(4)**	2	5
Total comprehensive loss for the period	**(133)**	(353)	(712)

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 Jun 2009							
	Share capital £m	**Share premium £m**	**Retained earnings £m**	**Translation reserve £m**	**Available-for-sale securities reserve £m**	**Shareholders' equity £m**	**Minority interests £m**	**Total equity £m**
Reserves								
Total comprehensive income (loss) for the period	-	-	(254)	(298)	423	**(129)**	**(4)**	**(133)**
Dividends	-	-	(322)	-	-	**(322)**	**-**	**(322)**
Reserve movements in respect of share-based payments	-	-	18	-	-	**18**	**-**	**18**
Change in minority interests arising	-	-	-	-	-	**-**	**(22)**	**(22)**

principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds								
Share capital and share premium								
New share capital subscribed	1	95	-	-	-	**96**	**-**	**96**
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(95)	95	-	-	**-**	**-**	**-**
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	7	-	-	**7**	**-**	**7**
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(8)	-	-	**(8)**	**-**	**(8)**
Net increase (decrease) in equity	1	-	(464)	(298)	423	**(338)**	**(26)**	**(364)**
At beginning of period	125	1,840	3,604	398	(909)	5,058	55	5,113
At end of period	126	1,840	3,140	100	(486)	**4,720**	**29**	**4,749**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 Jun 2008							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Shareholders' equity £m	Minority interests £m	Total equity £m
Reserves								
Total comprehensive income (loss) for the period	-	-	(116)	46	(285)	(355)	2	(353)
Dividends	-	-	(304)	-	-	(304)	-	(304)
Reserve movements in respect of share-based payments	-	-	14	-	-	14	-	14
	-	-	-	-	-	-	(6)	(6)

Change in minority interests arising principally from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds								
Share capital and share premium								
New share capital subscribed	1	136	-	-	-	137	-	137
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(126)	126	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	6	-	-	6	-	6
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(8)	-	-	(8)	-	(8)
Net increase (decrease) in equity	1	10	(282)	46	(285)	(510)	(4)	(514)
At beginning of period	123	1,828	4,301	(112)	(78)	6,062	102	6,164
At end of period	124	1,838	4,019	(66)	(363)	5,552	98	5,650

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 Dec 2008							
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Available-for-sale securities reserve £m	Shareholders' equity £m	Minority interests £m	Total equity £m
Reserves								
Total comprehensive income (loss) for the year	-	-	(396)	510	(831)	(717)	5	(712)
Dividends	-	-	(453)	-	-	(453)	(2)	(455)
Reserve movements in respect of share-based payments	-	-	18	-	-	18	-	18
Change in minority interests arising principally	-	-	-	-	-	-	(50)	(50)

from purchase and sale of property partnerships of the PAC with-profits fund and other consolidated investment funds								
Share capital and share premium								
New share capital subscribed	2	168	-	-	-	170	-	170
Transfer to retained earnings in respect of shares issued in lieu of cash dividends	-	(156)	156	-	-	-	-	-
Treasury shares								
Movement in own shares in respect of share-based payment plans	-	-	3	-	-	3	-	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(25)	-	-	(25)	-	(25)
Net increase (decrease) in equity	2	12	(697)	510	(831)	(1,004)	(47)	(1,051)
At the beginning of the year	123	1,828	4,301	(112)	(78)	6,062	102	6,164
At end of year	125	1,840	3,604	398	(909)	5,058	55	5,113

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Jun 2009	30 Jun 2008	31 Dec 2008

	£m	£m	£m
Assets			
Intangible assets attributable to shareholders:			
Goodwill	**1,310**	1,341	1,341
Deferred acquisition costs and other intangible assets (note P)	**4,045**	3,290	5,349
	5,355	4,631	6,690
Intangible assets attributable to with-profits funds:			
In respect of acquired subsidiaries for venture fund and other investment purposes	**159**	174	174
Deferred acquisition costs and other intangible assets	**111**	18	126
	270	192	300
Total	**5,625**	4,823	6,990
Other non-investment and non-cash assets:			
Property, plant and equipment	**428**	1,038	635
Reinsurers' share of insurance contract liabilities	**1,114**	971	1,240
Deferred tax asset (note H)	**2,149**	1,250	2,886
Current tax recoverable	**389**	244	657
Accrued investment income	**2,366**	2,209	2,513
Other debtors	**1,311**	1,108	1,232
Total	**7,757**	6,820	9,163
Investments of long-term business and other operations:			
Investment properties	**10,479**	13,529	11,992
Investments accounted for using the equity method	**6**	16	10
Financial investments:			
Loans (note K)	**8,613**	8,719	10,491
Equity securities and portfolio holdings in unit trusts	**56,069**	75,876	62,122
Debt securities (note L)	**89,399**	83,806	95,224
Other investments	**6,085**	4,528	6,301
Deposits	**8,806**	8,194	7,294
Total	**179,457**	194,668	193,434
Properties held for sale	**5**	-	-
Cash and cash equivalents	**6,542**	4,844	5,955
Total assets (note D)	**199,386**	211,155	215,542

	30 Jun 2009	30 Jun 2008	31 Dec 2008
	£m	£m	£m
Equity and liabilities			
Equity			
Shareholders' equity	**4,720**	5,552	5,058

Minority interests	**29**	98	55
Total equity	**4,749**	5,650	5,113
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds			
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	**165,047**	169,113	173,977
Unallocated surplus of with-profits funds	**7,061**	12,560	8,414
Total	**172,108**	181,673	182,391
Core structural borrowings of shareholder-financed operations:			
Subordinated debt	**2,198**	1,603	1,987
Other	**701**	923	971
Total (note N)	**2,899**	2,526	2,958
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations (note O)	**2,855**	2,908	1,977
Borrowings attributable to with-profits operations (note O)	**1,349**	937	1,308
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements	**4,218**	5,053	5,572
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	**2,706**	3,755	3,843
Current tax liabilities	**663**	952	842
Deferred tax liabilities (note H)	**2,651**	2,843	3,229
Accruals and deferred income	**626**	773	630
Other creditors	**1,640**	1,956	1,496
Provisions	**614**	488	461
Derivative liabilities	**1,379**	723	4,832
Other liabilities	**929**	918	890
Total	**15,426**	17,461	21,795
Total liabilities	**194,637**	205,505	210,429
Total equity and liabilities (note D)	**199,386**	211,155	215,542

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
Cash flows from operating activities			
Loss before tax *(being tax attributable to shareholders' and policyholders' returns)* (note (i))	**(155)**	(739)	(2,074)
Changes in operating assets and liabilities (note (ii))	**1,068**	1,236	3,978
Other items (note (ii))	**633**	(325)	(760)
Net cash flows from operating activities	**1,546**	172	1,144
Cash flows from investing activities			
Net cash flows from purchases and disposals of property, plant and equipment	**(22)**	(55)	(229)
Disposal of Taiwan agency business (notes (iii) and G)	**(436)**	-	-
Net cash flows from investing activities	**(458)**	(55)	(229)
Cash flows from financing activities			

Structural borrowings of the Group:			
Shareholder-financed operations (notes (iv) and N):			
Issue of subordinated debt, net of costs	**379**	-	-
Redemption of senior debt	**(249)**	-	-
Interest paid	**(98)**	(91)	(167)
With-profits operations (notes (v) and O):			
Interest paid	**(9)**	(9)	(9)
Equity capital (note (vi)):			
Issues of ordinary share capital	**-**	10	12
Dividends paid	**(226)**	(177)	(297)
Net cash flows from financing activities	**(203)**	(267)	(461)
Net increase (decrease) in cash and cash equivalents	**885**	(150)	454
Cash and cash equivalents at beginning of period	**5,955**	4,951	4,951
Effect of exchange rate changes on cash and cash equivalents	**(298)**	43	550
Cash and cash equivalents at end of period (note (vii))	**6,542**	4,844	5,955

Notes

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

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

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

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

(vi)

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

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

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) BASIS RESULTS

NOTES ON THE IFRS BASIS RESULTS

A Basis of preparation and audit status

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

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

B Significant accounting policies

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

IFRS 8, 'Operating Segments'

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

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the GEC to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group's operating segments as determined under IFRS 8 are insurance operations split by territories in which the Group conducts business, which are Asia, the United States and the United Kingdom and asset management operations which have been split into M&G which is the Group's UK and European asset management business, the Asian asset management business and the US broker-dealer and asset management business (including Curian). Segment results that are reported to the GEC include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and Asia Regional Head Office. This is consistent with how the Group has been presenting its results in its supplementary analysis of profit before tax attributable to shareholders. This supplementary analysis of profit which also reflects the Group's IFRS 8's segmental income statement is disclosed in note C 'segment disclosure - income statement'. The Group's segmental statement of financial position is as disclosed in note D (i).

Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation'

The revised version of IAS 1, which includes non-mandatory changes to the titles of some of the financial statements, has resulted in a number of changes in presentation and disclosure.

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

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

Improvements to IFRSs

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

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

Improving Disclosures about Financial Instruments (Amendments to IFRS 7)

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

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

- *Amendments to IFRS 2, 'Share-based Payment: Vesting Conditions and Cancellations'*
- *Amendments to IAS 23 'Borrowing costs'*
- *Amendments to IAS 32, 'Financial instruments: Presentation' and IAS 1, 'Presentation of financial statements' - Puttable Financial Instruments and Obligations Arising on Liquidation'*
- *IFRIC 16, 'Hedges of a net investment in a foreign operation'*

C Segment disclosure - income statement

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
Asian operations (note i)			
Insurance operations (note E(i)):			
Underlying results before exceptional credit	**149**	75	257
Exceptional credit for Malaysia operations (note E(i))	**63**	-	-
Total Asian insurance operations	**212**	75	257
Development expenses	**(5)**	(3)	(26)
Total Asian insurance operations after development expenses	**207**	72	231

Asian asset management	**21**	29	52
Total Asian operations	**228**	101	283
US operations			
Jackson (US insurance operations)	**217**	232	406
Broker-dealer and asset management (note ii)	**2**	6	7
Total US operations	**219**	238	413
UK operations			
UK insurance operations:			
Long-term business (note E(iii))	**303**	272	545
General insurance commission (note (iii))	**27**	14	44
Total UK insurance operations	**330**	286	589
M&G	**102**	146	286
Total UK operations	**432**	432	875
Total segment profit	**879**	771	1,571
Other income and expenditure			
Investment return and other income	**13**	72	89
Interest payable on core structural borrowings	**(84)**	(82)	(172)
Corporate expenditure:			
Group Head Office	**(74)**	(79)	(130)
Asia Regional Head Office	**(23)**	(17)	(41)
Charge for share-based payments for Prudential schemes (note (iv))	**(11)**	(4)	(6)
Total	**(179)**	(110)	(260)
Restructuring costs (note (v))	**(12)**	(14)	(28)
Operating profit based on longer-term investment returns (note (i))	**688**	647	1,283
Short-term fluctuations in investment returns on shareholder-backed business (note F)	**(80)**	(617)	(1,721)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes (note (vi))	**(63)**	(92)	(13)
Loss on sale and results for Taiwan agency business (notes (i) and G)	**(621)**	(40)	1
Loss from continuing operations before tax attributable to shareholders	**(76)**	(102)	(450)

Notes

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

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

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

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

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

(vi)

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

Determining operating segments and performance measure of operating segments

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

Insurance operations

- Asia
- US (Jackson)
- UK

Asset management operations

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

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

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

(a)Debt and equity securities

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

(b)Derivative value movements

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

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

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

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

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

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

(c)Liabilities to policyholders and embedded derivatives for product guarantees

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities are broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the element that relates to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (i.e. after allocated investment return and change for policyholder benefits) the operating result reflects longer-term market returns.

Examples where such bifurcation is necessary are:

(i) Asia

· *Vietnamese participating business*

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

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

·

???Non-participating business

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

·

???Guaranteed Minimum Death Benefit (GMDB) product features

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

(ii) US operations - Embedded derivatives for variable annuity guarantee features

Under IFRS, the Guaranteed Minimum Withdrawal Benefit (GMWB) and Guaranteed Minimum Income Benefit (GMIB) reinsurance are required to be fair valued as embedded derivatives. The movements in carrying values are affected by changes in the level of observed implied equity volatility and changes to the discount rate applied from period to period. For these embedded derivatives the discount rate applied reflects AA corporate bond curve rates. For the purposes of determining operating profit based on longer-term investment returns the charge for these features is determined using historical longer-term equity volatility levels and long-term average AA corporate bond rate curves.

(iii) UK shareholder-backed annuity business

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

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

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

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

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

Additional segmental analysis of revenue

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

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

	Half year 2008				
	Asia	US	UK	Intragroup	Total
	£m	£m	£m	£m	£m
Revenue from external customers :					
Insurance operations	2,809	2,749	3,355	-	8,913

Asset management	106	211	249	(136)	430
Unallocated corporate	-	-	36	-	36
Intragroup revenue eliminated on consolidation	(36)	(24)	(76)	136	0
Total revenue from external customers	2,879	2,936	3,564	-	9,379

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

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

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

D Group statement of financial position analysis

(i) Group statement of financial position

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

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

	UK	US	Asia							
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Intangible assets attributable to shareholders:										
Goodwill (note (b))	-	-	80	80	1,230	-	-	**1,310**	1,341	1,341
Deferred acquisition costs and other intangible assets (note P)	132	3,259	648	4,039	6	-	-	**4,045**	3,290	5,349
Total	132	3,259	728	4,119	1,236	-	-	**5,355**	4,631	6,690
Intangible assets attributable to with-profits funds:										
In respect of acquired subsidiaries for venture fund and other investment purposes	159	-	-	159	-	-	-	**159**	174	174
Deferred acquisition costs and other intangible assets	13	-	98	111	-	-	-	**111**	18	126
Total	172	-	98	270	-	-	-	**270**	192	300
Total	304	3,259	826	4,389	1,236	-	-	**5,625**	4,823	6,990
Deferred tax assets	385	1,363	101	1,849	144	156	-	**2,149**	1,250	2,886
Other non investment and non-cash assets	4,081	1,315	1,466	6,862	753	3,457	(5,464)	**5,608**	5,570	6,277
Investment of long term business and other operations:										
Investment properties	10,455	12	12	10,479	-	-	-	**10,479**	13,529	11,992
Investments accounted for using the equity method	-	-	-	-	-	6	-	**6**	16	10
Financial investments:										
Loans (note K)	1,689	4,295	1,095	7,079	1,534	-	-	**8,613**	8,719	10,491
Equity securities and portfolio holdings in unit trusts	32,853	14,984	8,160	55,997	72	-	-	**56,069**	75,876	62,122
Debt securities (note L)	59,231	20,896	8,294	88,421	978	-	-	**89,399**	83,806	95,224
Other investments	4,216	1,103	191	5,510	358	217	-	**6,085**	4,528	6,301

Deposits	7,668	577	539	8,784	22	-	-	**8,806**	8,194	7,294
Total Investments	116,112	41,867	18,291	176,270	2,964	223	-	**179,457**	194,668	193,434
Properties held-for sale	5	-	-	5	-	-	-	**5**	-	-
Cash and cash equivalents	2,873	343	1,142	4,358	1,546	638	-	**6,542**	4,844	5,955
Total assets	**123,760**	**48,147**	**21,826**	**193,733**	**6,643**	**4,474**	**(5,464)**	**199,386**	211,155	215,542

	Insurance operations			**Total insurance operations**	**Asset management operations**	**Unallocated to a segment (central operations)**	**Intra-group eliminations**	**30 Jun 2009 Group total**	**30 2 Gr t**
	UK	**US**	**Asia**		**(note (a))**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	
Equity and liabilities									
Equity									
Shareholders' equity	1,749	2,046	1,576	5,371	1,637	(2,288)	-	**4,720**	5
Minority interests	26	-	2	28	1	-	-	**29**	
Total equity	1,775	2,046	1,578	5,399	1,638	(2,288)	-	**4,749**	5
Liabilities									
Policyholder liabilities and unallocated surplus of with profits funds:									
Contract liabilities including amounts in respect of contracts classified as investment contracts under IFRS 4)	105,369	41,492	18,186	165,047	-	-	-	**165,047**	169
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with profits funds)	7,015	-	46	7,061	-	-	-	**7,061**	12
Total policyholder liabilities and unallocated surplus of with profits funds	112,384	41,492	18,232	172,108	-	-	-	**172,108**	181
Core structural borrowings of shareholder financed operations:									
Subordinated debt	-	-	-	-	-	2,198	-	**2,198**	1
Other	-	152	-	152	-	549	-	**701**	
Total (note N)	-	152	-	152	-	2,747	-	**2,899**	2
Operational borrowings attributable to shareholder financed operations (note O)	28	297	133	458	5	2,392	-	**2,855**	2

Borrowings attributable to with-profits									
operations (note O)	1,349	-	-	1,349	-	-	-	**1,349**	
Deferred tax liabilities	1,198	1,075	352	2,625	7	19	-	**2,651**	2
Other non-insurance liabilities	7,026	3,085	1,531	11,642	4,993	1,604	(5,464)	**12,775**	14
Total liabilities	121,985	46,101	20,248	188,334	5,005	6,762	(5,464)	**194,637**	205
Total equity and liabilities	**123,760**	**48,147**	**21,826**	**193,733**	**6,643**	**4,474**	**(5,464)**	**199,386**	211

(a) *Asset management operations*

	M&G £m	US £m	Asia £m	**Total 30 Jun 2009 £m**	Total 30 Jun 2008 £m	Total 31 Dec 2008 £m
Assets						
Intangible assets:						
Goodwill	1,153	16	61	**1,230**	1,230	1,230
Deferred acquisition costs	6	-	-	**6**	5	6
Total	1,159	16	61	**1,236**	1,235	1,236
Other non-investment and non-cash assets	665	145	87	**897**	425	295
Loans (note K)	1,534	-	-	**1,534**	2,488	1,763
Equity securities and portfolio holdings in unit trusts	65	-	7	**72**	24	23
Debt securities (note L)	966	-	12	**978**	1,024	991
Other investments	352	4	2	**358**	159	462
Deposits	7	5	10	**22**	135	64
Total investments	2,924	9	31	**2,964**	3,830	3,303
Cash and cash equivalents (note (iii))	1,434	28	84	**1,546**	1,779	1,472
Total assets	6,182	198	263	**6,643**	7,269	6,306
Equity and liabilities						
Equity						
Shareholders' equity (note (i))	1,331	101	205	**1,637**	1,618	1,642
Minority interests	1	-	-	**1**	54	1
Total equity	1,332	101	205	**1,638**	1,672	1,643
Liabilities						
Intra-group debt represented by operational borrowings at						
Group level (note (ii))	2,392	-	-	**2,392**	2,321	1,278
Net asset value attributable to external holders of						
consolidated funds (note (iii))	524	-	-	**524**	1,474	1,065
Other non-insurance liabilities	1,934	97	58	**2,089**	1,802	2,320
Total liabilities	4,850	97	58	**5,005**	5,597	4,663
Total equity and liabilities	6,182	198	263	**6,643**	7,269	6,306

Notes

(i) M&G shareholders' equity include those in respect of Prudential Capital
(ii) Intra Group debt represented by operational borrowings at Group level

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

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

(b) Goodwill attributable to shareholders

Goodwill attributable to shareholders has decreased from £1,341 million at 31 December 2008 to £1,310 million at 30 June 2009 due to the write-off of the goodwill of £44 million relating to the sold Taiwan agency business offset by additional consideration paid in relation to other Asian subsidiaries.

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

	Shareholder-backed business								
	Participating funds £m	**Unit-linked and variable annuity £m**	**Non-linked business £m**	**Asset management operations £m**	**Unallocated to a segment (central operations) £m**	**Intra-group eliminations £m**	**30 Jun 2009 Group total £m**	**30 Jun 2008 Group total £m**	**31 Dec 2008 Group total £m**
Assets									
Intangible assets attributable to shareholders:									
Goodwill	-	-	80	1,230	-	-	**1,310**	1,341	1,341
Deferred acquisition costs and other intangible assets	-	-	4,039	6	-	-	**4,045**	3,290	5,349
Total	-	-	4,119	1,236	-	-	**5,355**	4,631	6,690
Intangible assets attributable to with									

profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes	159	-	-	-	-	-	**159**	174	174
Deferred acquisition costs and other intangible assets	111	-	-	-	-	-	**111**	18	126
Total	270	-	-	-	-	-	**270**	192	300
Total	270	-	4,119	1,236	-	-	**5,625**	4,823	6,990
Deferred tax assets	240	-	1,609	144	156	-	**2,149**	1,250	2,886
Other non-investment and non-cash assets	2,920	601	3,341	753	3,457	(5,464)	**5,608**	5,570	6,277
Investment of long term business and other operations:									
Investment properties	8,507	616	1,356	-	-	-	**10,479**	13,529	11,992
Investments accounted for using the equity method	-	-	-	-	6	-	**6**	16	10
Financial investments:									
Loans (note K)	1,781	47	5,251	1,534	-	-	**8,613**	8,719	10,491
Equity securities and portfolio holdings in unit trusts	26,098	29,295	604	72	-	-	**56,069**	75,876	62,122
Debt securities (note L)	41,753	6,763	39,905	978	-	-	**89,399**	83,806	95,224
Other investments	3,917	235	1,358	358	217	-	**6,085**	4,528	6,301
Deposits	6,300	780	1,704	22	-	-	**8,806**	8,194	7,294
Total Investments	88,356	37,736	50,178	2,964	223	-	**179,457**	194,668	193,434
Properties held-for-sale	2	3	-	-	-	-	**5**	-	-
Cash and cash equivalents	1,835	1,102	1,421	1,546	638	-	**6,542**	4,844	5,955
Total assets	**93,623**	**39,442**	**60,668**	**6,643**	**4,474**	**(5,464)**	**199,386**	211,155	215,542

		Shareholder-backed business				
Participating funds	**Unit-linked and variable**	**Non-linked business**	**Asset management operations**	**Unallocated to a segment**	**Intra-group eliminations**	**30 Jun**

		annuity			(central operations)		2009 Group total	
	£m	£m	£m	£m	£m	£m	£m	
Equity and liabilities								
Equity								
Shareholders' equity	-	-	5,371	1,637	(2,288)	-	**4,720**	
Minority interests	26	-	2	1	-	-	**29**	
Total equity	26	-	5,373	1,638	(2,288)	-	**4,749**	
Liabilities								
Policyholder liabilities and unallocated surplus of with profits funds:								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	79,291	38,299	47,457	-	-	-	**165,047**	1
Unallocated surplus of with profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)	7,061	-	-	-	-	-	**7,061**	
Total policyholder liabilities and unallocated surplus of with profits funds	86,352	38,299	47,457	-	-	-	**172,108**	1
Core structural borrowings of shareholder-financed operations:								
Subordinated debt	-	-	-	-	2,198	-	**2,198**	
Other	-	-	152	-	549	-	**701**	
Total	-	-	152	-	2,747	-	**2,899**	
Operational borrowings attributable to shareholder financed operations	-	-	458	5	2,392	-	**2,855**	
Borrowings attributable to with-profits operations	1,349	-	-	-	-	-	**1,349**	
Deferred tax liabilities	1,012	-	1,613	7	19	-	**2,651**	
Other non-insurance liabilities	4,884	1,143	5,615	4,993	1,604	(5,464)	**12,775**	
Total liabilities	93,597	39,442	55,295	5,005	6,762	(5,464)	**194,637**	2
Total equity and liabilities	**93,623**	**39,442**	**60,668**	**6,643**	**4,474**	**(5,464)**	**199,386**	2

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

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

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

(ii) US insurance operations

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

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

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

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

30 June 2009	**Pillar I regulatory basis (bps)**	**Adjustment from regulatory to IFRS basis (bps)**	**IFRS (bps)**
Bond spread over swap rates (note (i))	275	-	275
Credit risk allowance			
Long-term expected defaults (note (ii))	24	-	24
Long-term credit risk premium (note (iii))	15	-	15
Short-term allowance for credit risk (note (iv))	46	(28)	18
Total credit risk allowance	85	(28)	57
Liquidity premium	190	28	218

30 June 2008	Pillar I regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates (note (i))	132	-	132
Credit risk allowance			
Long-term expected defaults (note (ii))	15	-	15
Long-term credit risk premium (note (iii))	11	(5)	6

Short-term allowance for credit risk (note (iv))	19	(17)	2
Total credit risk allowance	45	(22)	23
Liquidity premium	87	22	109

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

Notes

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

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

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

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

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

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

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

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

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Insurance operations:			
Asian (note (i))	**(41)**	(197)	(138)
US (note (ii))	**165**	(181)	(1,058)
UK (note (iii))	**(63)**	(82)	(212)
Other operations			
- IGD hedge costs (note (iv))	**(216)**	-	-
- Other (note (v))	**75**	(157)	(313)
	(141)	(157)	(313)
Total	**(80)**	(617)	(1,721)

Notes

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

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

Half year	Half year	Full year
2009	2008	2008

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

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

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

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

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

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

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

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

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

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

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

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

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

On 20 February 2009, the Company announced that it had entered into an agreement to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT$1 subject to regulatory approval. In addition, the Company would invest £45 million to purchase a 9.99 per cent stake in China Life through a share placement. The business transferred represented 94 per cent of Prudential's in-force liabilities in Taiwan and included Prudential's legacy interest rate guaranteed products with IFRS basis gross assets at 31 December 2008 of £4.5 billion. After taking account of IFRS shareholders' equity of the business at 31 December 2008, provisions for restructuring costs, and other costs the Group's IFRS shareholders' equity at 31 December 2008 was expected to decrease by approximately £595 million.

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

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

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

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

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

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

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

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

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

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

H Tax

(i) Tax (charge) credit

The total tax charge of £103 million for half year 2009 (half year 2008: credit of £625 million; full year 2008: credit of £1,683 million) comprises a credit of £69 million (half year 2008: £670 million; full year 2008: £1,758 million) for

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

(ii) Deferred tax asset and liabilities

The deferred tax asset is made up as follows:

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

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

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

The deferred tax liability is made up as follows:

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m

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

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

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

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

I Supplementary analysis of earnings per share from continuing operations

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

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

J Dividend

	Half year	Half year	Full year
Dividends per share (in pence)	**2009**	2008	2008
Dividends relating to reporting period:			

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

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

K Loans portfolio

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

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

Notes

(i) *UK insurance operations*

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

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

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

June 2008: £6 million; 31 December 2008: £6 million).

(ii) *US insurance operations*

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

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

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

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

(iii) *Asian insurance operations*

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

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

(iv) *M&G*

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

to BB- (30 June 2008: £907 million; 31 December 2008: £663 million).

L Debt securities portfolio

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

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

Notes

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

(i) UK insurance operations

	PAC-with profits sub-fund				**Other funds and subsidiaries**			**UK insurance operations**	
	Scottish Amicable Insurance Fund	**Excluding Prudential Annuities Limited**	**Prudential Annuities Limited**	**Total**	**Unit-linked assets and liabilities**	**PRIL**	**Other annuity and long-term business**	**30 Jun 2009 Total**	31 Dec 2008 Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	£m
S&P - AAA	987	4,831	2,465	7,296	2,846	4,556	886	**16,571**	18,981
S&P - AA+ to AA-	331	1,917	1,141	3,058	474	1,553	257	**5,673**	6,012
S&P - A+ to A-	1,002	5,887	3,530	9,417	969	4,379	592	**16,359**	15,929
S&P - BBB+ to BBB-	807	4,433	1,181	5,614	362	1,964	394	**9,141**	7,413

S&P - Other	266	1,335	109	1,444	31	253	45	**2,039**	1,033
	3,393	18,403	8,426	26,829	4,682	12,705	2,174	**49,783**	49,368
Moody's - Aaa	62	282	48	330	-	59	16	**467**	681
Moody's - Aa1 to Aa3	13	90	58	148	8	84	22	**275**	833
Moody's - A1 to A3	18	111	172	283	4	99	16	**420**	678
Moody's - Baa1 to Baa3	47	263	259	522	18	101	24	**712**	454
Moody's - Other	19	110	46	156	-	115	12	**302**	162
	159	856	583	1,439	30	458	90	**2,176**	2,808
Fitch	54	310	277	587	-	197	33	**871**	560
Other	427	2,313	2,226	4,539	69	1,292	74	**6,401**	6,135
Total debt securities	4,033	21,882	11,512	33,394	4,781	14,652	2,371	**59,231**	58,871

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

(ii) *US insurance operations*

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

Moody's - Other	**146**	95
	649	864
Fitch	**239**	464
Other*	**2,755**	3,105
Total debt securities	**20,896**	24,249

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

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

(iii)*Asia insurance operations*

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

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

(iv) *Asset Management Operations*
Total debt securities for asset management operations of £978 million (31 December 2008: £991 million), include £966 million (31 December 2008: £959 million) related to M&G's Prudential Capital operations of which £923 million (31 December 2008: £959 million) were rated AAA to A- by S&P or Aaa by Moody's.

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

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

(i) <u>UK insurance operations</u>

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

	30 Jun 2009	31 Dec 2008

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

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

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

(ii) US insurance operations

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

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

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

(iii) Asian insurance operations

The Asian insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations.
The £261 million (31 December 2008: £328 million) asset-backed securities exposure of the Asian with-profit operations comprises:

30 Jun	31 Dec

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

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

(iv) Other operations

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

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

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

(i) Valuation basis

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

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

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

Further improvements in the liquidity levels for these sectors took place in the second quarter of 2009. This enabled the use at 30 June 2009, of external prices provided from pricing services or brokers to be applied as the most appropriate measure of fair value under IAS 39 for nearly all of the remaining structured securities for which internal valuation models had been used at 31 March 2009.

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

(ii) Accounting presentation of gains and losses

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

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

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

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

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

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

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

**Translated at the average rate of $1.49: £1.

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

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

(iv) Securities in unrealised loss position

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

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

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

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

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

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

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

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

	30 Jun 2009			31 Dec 2008		
	Non investment grade	**Investment grade**	**Total**	Non investment grade	Investment grade	Total
	£m	**£m**	**£m**	£m	£m	£m

Less than 6 months	**(43)**	**(169)**	**(212)**	(108)	(362)	(470)
6 months to 1 year	**(52)**	**(117)**	**(169)**	(125)	(1,164)	(1,289)
1 year to 2 years	**(182)**	**(768)**	**(950)**	(154)	(622)	(776)
2 years to 3 years	**(187)**	**(270)**	**(457)**	(15)	(91)	(106)
More than 3 years	**(78)**	**(358)**	**(436)**	(61)	(476)	(537)
	(542)	**(1,682)**	**(2,224)**	(463)	(2,715)	(3,178)

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

(c)

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

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

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

	30 Jun 2009		31 Dec 2008	
	Fair value	**Unrealised loss**	Fair value	Unrealised loss
	£m	**£m**	£m	£m
Residential mortgage-backed securities				
Prime	**404**	**(364)**	287	(115)
Alt - A	**187**	**(154)**	144	(127)
Sub-prime	**118**	**(124)**	48	(39)
	709	**(642)**	479	(281)
Commercial mortgage-backed securities.	**478**	**(263)**	811	(375)
Other asset-backed securities	**256**	**(302)**	198	(86)

Total structured securities	**1,443**	**(1,207)**	1,488	(742)
Corporates	**780**	**(324)**	2,596	(1,196)
Total	**2,223**	**(1,531)**	4,084	(1,938)

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

N Net core structural borrowings of shareholder-financed operations

	30 Jun 2009	30 Jun 2008	31 Dec 2008
	£m	£m	£m
Core structural borrowings of shareholder-financed operations:			
Perpetual subordinated capital securities (Innovative Tier 1*)	**950**	765	1,059
Subordinated notes (Lower Tier 2*)	**1,248**	838	928
Subordinated debt total	**2,198**	1,603	1,987
Senior debt ***:			
2009	**–**	249	249
2023	**300**	300	300
2029	**249**	249	249
Holding company total	**2,747**	2,401	2,785
Jackson surplus notes (Lower Tier 2*)	**152**	125	173
Total (per summary consolidated statement of financial position)	**2,899**	2,526	2,958
Less: Holding company** cash and short-term investments (recorded within the summary consolidated statement of financial position)	**(1,252)**	(1,498)	(1,165)
Net core structural borrowings of shareholder-financed operations	**1,647**	1,028	1,793

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

** Including central finance subsidiaries.

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

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

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

O Other borrowings

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

P Deferred acquisition costs and other intangible assets attributable to shareholders

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

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

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

Variable annuity contracts written by Jackson may provide for guaranteed minimum death, income, or withdrawal benefit features. In general terms, liabilities for these benefits are accounted for under US GAAP by using estimates of future benefits and fees under best estimate assumptions. For variable annuity business the key assumption is the expected long-term level of equity market returns, which for half years 2009 and 2008 and full year 2008 was 8.4 per cent per annum (gross of fund management fees) determined using a mean reversion methodology. Under the mean reversion methodology, projected returns over the next five years are flexed (subject to capping) so that, combined with the actual rates of return for the current and the previous two years the 8.4 per cent rate is maintained. The projected rates of return are capped at no more than 15 per cent for each of the next five years.

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

For traditional life insurance contracts, provisions for future policy benefits are determined under SFAS 60 using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation.

Except to the extent of mortality experience, which primarily affects profits through variations in claim payments and the guaranteed minimum death benefit reserves, the profits of Jackson are relatively insensitive to changes in insurance risk.

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

	30 Jun 2009 £m	30 Jun 2008 £m	31 Dec 2008 £m
Deferred acquisition costs relating to insurance and investment management contracts	**3,923**	3,218	5,205
Present value of acquired in-force business and distribution rights	**122**	72	144
	4,045	3,290	5,349
Arising in:			
UK insurance operations	**132**	149	134
US insurance operations	**3,259**	2,297	3,962
Asia insurance operations	**648**	839	1,247
Asset management operations	**6**	5	6
	4,045	3,290	5,349

The movement in the period comprises:

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m

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

Q Defined benefit pension schemes

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

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

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

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

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

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

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

R Contingencies and related obligations

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

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

S Related party disclosures

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

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

T Post-balance sheet events

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

U Group supplementary information

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

at www.prudential.co.uk

TOTAL INSURANCE AND INVESTMENT PRODUCTS NEW BUSINESS

INSURANCE PRODUCTS AND INVESTMENT PRODUCTS

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

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

Single	Regular	Annual Premium and Contribution Equivalents	Present Value of New Business Premiums (PVNBP)

							(APE)					
	Half year 2009	Half year 2008	Full year 2008	**Half year 2009**	Half year 2008	Full year 2008	**Half year 2009**	Half year 2008	Full year 2008	**Half year 2009**	Half year 2008	Full year 2008
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Asian operations												
China	**43**	35	63	**17**	15	32	**21**	19	38	**125**	111	230
Hong Kong	**31**	346	507	**92**	78	154	**95**	113	205	**582**	834	1,612
India (Group's 26% interest)	**32**	40	60	**73**	122	202	**76**	126	208	**272**	450	747
Indonesia	**13**	68	94	**82**	81	167	**83**	88	176	**282**	336	649
Japan	**38**	68	115	**25**	21	30	**29**	28	42	**155**	163	217
Korea	**20**	50	78	**64**	118	211	**66**	123	219	**314**	594	1,097
Malaysia	**33**	14	28	**49**	38	99	**52**	39	102	**295**	225	570
Singapore	**115**	276	341	**40**	37	78	**52**	65	112	**409**	547	961
Taiwan (note (iv))	**32**	24	36	**48**	16	55	**51**	18	58	**178**	78	237
Other	**8**	10	18	**27**	29	54	**28**	30	56	**94**	97	188
Total Asian operations	**365**	931	1,340	**517**	555	1,082	**553**	648	1,216	**2,706**	3,435	6,508
US operations												
Fixed annuities	**701**	635	1,724	**-**	-	-	**69**	63	172	**701**	635	1,724
Fixed index annuities	**575**	196	501	**-**	-	-	**58**	20	50	**575**	196	501
Variable annuities	**2,517**	1,797	3,491	**-**	-	-	**252**	180	349	**2,517**	1,797	3,491
Life	**5**	4	7	**12**	11	24	**13**	11	25	**96**	88	230
Guaranteed Investment Contracts	**-**	505	857	**-**	-	-	**-**	50	86	**-**	505	857
GIC-Medium Term Notes	**-**	316	337	**-**	-	-	**-**	32	34	**-**	316	337
Total US operations	**3,798**	3,453	6,917	**12**	11	24	**392**	356	716	**3,889**	3,537	7,140
UK operations												
Product summary												
Internal vesting annuities	**726**	721	1,600	**-**	-	-	**73**	72	160	**726**	721	1,600
Direct and partnership annuities	**273**	373	703	**-**	-	-	**27**	37	70	**273**	373	703
Intermediated annuities	**140**	285	497	**-**	-	-	**14**	29	50	**140**	285	497
Total individual annuities	**1,139**	1,379	2,800	**-**		-	**114**	138	280	**1,139**	1,379	2,800
Income drawdown	**46**	30	75	**-**	-	-	**4**	3	8	**46**	30	75
Equity release	**54**	117	242	**-**	-	-	**5**	12	24	**54**	117	242
Individual pensions	**98**	32	115	**3**	1	3	**13**	4	14	**107**	35	124
Corporate pensions	**47**	94	221	**44**	38	88	**49**	47	110	**286**	280	645
Unit-linked bonds	**49**	67	109	**-**	-	-	**5**	7	11	**49**	67	109
With-profits bonds	**684**	418	869	**-**	-	-	**68**	42	87	**684**	418	869
Protection	**-**	-	-	**7**	3	6	**7**	3	6	**45**	16	38
Offshore products	**127**	321	551	**2**	2	4	**15**	34	59	**137**	331	573
PruHealth (note (iii))	**-**	-	-	**6**	8	16	**6**	8	16	**56**	79	146
Total retail retirement	**2,244**	2,458	4,982	**62**	52	117	**286**	298	615	**2,603**	2,752	5,621

	Single			Regular			Annual Premium and Contribution Equivalents (APE)			Present Value of New Business Premiums (PVNBP)		
			Full			Full			Full		Half	Full

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

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

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

Notes

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

Annual premium and contribution equivalents are calculated as the aggregate of regular new business amounts and one tenth of single new business amounts. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution. New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS reporting. New business premiums for regular premium products are shown on an annualised basis. Department of Work and Pensions rebate business is classified as single recurrent business. Internal vesting business is classified as new business where the contracts include an open market option.

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as "insurance" refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, i.e. falling within one of the classes of insurance specified in part II of Schedule 1 to the Regulated Activities Order under FSA regulations.

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

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

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

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

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

Statement of Directors' Responsibilities

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

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

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

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the six

months ended 30 June 2009, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

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

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

On behalf of the Board of directors

Tidjane Thiam

Chief Financial Officer

12 August 2009

Combined IFRS basis results and EEV basis results report

Independent review report by KPMG Audit Plc to Prudential plc

Introduction

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

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

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

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

Directors' responsibilities

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

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

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

Our responsibility

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

Scope of review

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

Conclusion

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

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

G Bainbridge

for and on behalf of KPMG Audit Plc

Chartered Accountants

8 Salisbury Square

London EC4Y 8BB

12 August 2009

Unaudited Supplementary Information

1. IFRS basis results - Analysis of long-term insurance pre-tax IFRS operating profit by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

(i) Investment spread - this represents the difference between investment income (or premium income in the case of the UK annuities new business) and amounts credited to policyholder accounts.
(ii) Asset management fees - this represents profits driven by investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses and profits derived from spread.
(iii) Net expense margin - represents expenses charged to the profit and loss account (excluding those borne by the with-profits fund and those products where earnings are purely protection driven) including amounts relating to movements in deferred acquisition costs, net of any fees or premium loadings related to expenses. Jackson DAC amortisation (net of hedging effects), which is intended to be part of the expense margin, has been separately highlighted in the table below.
(iv) Insurance margin - profits derived from the insurance risks of mortality, morbidity and persistency including fees earned on variable annuity guarantees.
(v) With-profits business - shareholders' transfer from the with-profits fund in the period.
(vi) Other represents a mixture of other income and expenses that are not directly allocated to the underlying drivers, including non-recurring items and Asian development expenses.

Analysis of pre-tax IFRS operating profit by driver by long-term business unit (note b)

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

Unaudited Supplementary Information

1. IFRS basis results - Analysis of long-term insurance pre-tax IFRS operating profit by driver (continued)

Analysis of pre-tax IFRS operating profit by driver by long-term business unit (note b)

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

Note

(a) Asia other includes development expenses of £5 million (half year 2008: £3 million; full year 2008: £26 million).

(b) Sale of Taiwan agency business

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

2. Analysis of IFRS operating profit between new and in-force business in Asia

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

	Half year	Half year	Full year
	2009	2008	2008
	£m	£m	£m
New business strain	**(47)**	(71)	(97)
Business in force	**259**	146	354
Total Asian insurance operations	**212**	75	257
Development expenses	**(5)**	(3)	(26)
Total Asian long-term business operating profit	**207**	72	231

The IFRS new business strain corresponds to approximately 8 per cent of new business APE premiums for half year 2009 (half year 2008: approximately 11 per cent of new business APE; full year 2008: approximately 8 per cent of new business APE).

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

Unaudited Supplementary Information

3. EEV basis results - New business profit and margins

	New Business Margin (APE)		
	Half Year 2009	Half year 2008	Full year 2008
Asian operations	**%**	%	%
Hong Kong	**76**	66	79
Korea	**36**	33	34
Taiwan (i)	**15**	15	22
India	**19**	16	19
China	**45**	51	52
Indonesia	**61**	51	58
Other	**62**	60	72
Weighted average for all Asian operations	**50**	45	52

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date 13 August 2009

PRUDENTIAL PUBLIC LIMITED COMPANY

By: /s/ Susan Henderson

Susan Henderson
Deputy Group Secretary