

## EEV disclosure

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# PRUDENTIAL PLC UNAUDITED HALF YEAR 2009 RESULTS

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### OPERATING PROFIT BASED ON LONGER-TERM INVESTMENT RETURNS<sup>\*i</sup>

#### Results Analysis by Business Area

	Half year 2009 £m	Half year 2008 <sup>*iv,v</sup> £m	Full year 2008 <sup>*iv,v</sup> £m
<b>Asian operations</b>			
New business	277	289	634
Business in force	124	171	579
Long-term business	401	460	1,213
Asset management	21	29	52
Development expenses	(5)	(3)	(26)
Total	417	486	1,239
<b>US operations</b>			
New business	292	137	293
Business in force	209	217	293
Long-term business	501	354	586
Broker-dealer and asset management <sup>*ii</sup>	2	6	7
Total	503	360	593
<b>UK operations</b>			
New business	122	129	273
Business in force	284	361	764
Long-term business	406	490	1,037
General insurance commission	27	14	44
Total UK insurance operations	433	504	1,081
M&G	102	146	286
Total	535	650	1,367
<b>Other income and expenditure</b>			
Investment return and other net income	(3)	51	47
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	(11)	(4)	(6)
Total	(195)	(131)	(302)
Restructuring costs <sup>*iii</sup>	(14)	(15)	(32)
<b>Operating profit based on longer-term investment returns<sup>*iv</sup></b>	<b>1,246</b>	<b>1,350</b>	<b>2,865</b>
Analysed as profits (losses) from:			
New business (note 5)	691	555	1,200
Business in force (note 6)	617	749	1,636
Long-term business	1,308	1,304	2,836
Asset management	125	181	345
Other results	(187)	(135)	(316)
Total	1,246	1,350	2,865

<sup>\*i</sup> EEV basis operating profit based on longer-term investment returns excludes short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees arising from changes in economic factors. In addition, in half year 2009 as a result of the exceptional dislocated market conditions, the Group incurred non-recurrent costs from an exceptional overlay short dated hedge to protect against tail events on the Group IGD capital position in addition to our regular operational hedging program. It also disposed of its Taiwan agency business. These items have been shown separately from operating profit based on longer-term investment returns. The treatment of the Taiwan agency business within the comparatives is discussed below. The amounts for these items are included in total EEV profit attributable to shareholders. The directors believe that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax includes these items together with actual investment returns. This basis of presentation has been adopted consistently throughout these statements.

<sup>\*ii</sup> The US broker-dealer and asset management result includes Curian losses of £3 million (half year 2008 £nil, full year 2008 £3 million).

<sup>\*iii</sup> Restructuring costs comprise the charge of £12 million recognised on an IFRS basis and an additional £2 million recognised on the EEV basis for the shareholders' share of costs incurred by the PAC with-profits fund.

- \*iv In June 2009, the Group completed the previously announced sale of its Taiwan agency business. In order to facilitate comparisons of the results of the Group's retained businesses the effect of disposal and the results of the Taiwan agency business are shown separately. The presentation of the comparative results for half year and full year 2008 has been adjusted accordingly as explained in note 12.
- \*v Exchange translation  
The comparative results have been prepared using previously reported exchange rates.

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### SUMMARY CONSOLIDATED INCOME STATEMENT

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Asian operations	417	486	1,239
US operations	503	360	593
UK operations:			
UK insurance operations	433	504	1,081
M&G	102	146	286
	535	650	1,367
Other income and expenditure	(195)	(131)	(302)
Restructuring costs	(14)	(15)	(32)
<b>Operating profit based on longer-term investment returns</b>	<b>1,246</b>	<b>1,350</b>	<b>2,865</b>
Short-term fluctuations in investment returns (note 7)	(707)	(1,868)	(4,967)
Mark to market value movements on core borrowings	(108)	171	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(71)	(98)	(14)
Effect of changes in economic assumptions and time value of cost of options and guarantees (note 8)	(384)	(100)	(398)
Profit on sale and results for Taiwan agency business (note 12)	91	(90)	(248)
<b>Profit (loss) before tax (including actual investment returns)</b>	<b>67</b>	<b>(635)</b>	<b>(2,106)</b>
Tax attributable to shareholders' profit/loss	(52)	162	771
<b>Profit (loss) for the period</b>	<b>15</b>	<b>(473)</b>	<b>(1,335)</b>
Attributable to:			
Equity holders of the Company	14	(475)	(1,338)
Minority interests	1	2	3
<b>Profit (loss) for the period</b>	<b>15</b>	<b>(473)</b>	<b>(1,335)</b>

### MOVEMENT IN SHAREHOLDERS' EQUITY (excluding minority interests)

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Profit (loss) for the period attributable to equity shareholders	14	(475)	(1,338)
Items taken directly to equity:			
Exchange movements (note 9)	(1,098)	35	2,010
Related tax	(6)	14	119
Dividends	(322)	(304)	(453)
New share capital subscribed	96	137	170
Reserve movements in respect of share-based payments	18	14	18
Treasury shares:			
Movement in own shares in respect of share-based payment plans	7	6	3
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS	(8)	(8)	(25)
Mark to market value movements on Jackson assets backing surplus and required capital	63	(42)	(148)
Net (decrease) increase in shareholders' equity	(1,236)	(623)	356
Shareholders' equity at beginning of period (excluding minority interests)	14,956	14,600	14,600
Shareholders' equity at end of period (excluding minority interests)	13,720	13,977	14,956

## EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS

### SUMMARY STATEMENT OF FINANCIAL POSITION

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Total assets less liabilities, excluding insurance funds	175,714	186,254	186,209
Less insurance funds*:			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds	(170,994)	(180,702)	(181,151)
Less shareholders' accrued interest in the long-term business	9,000	8,425	9,898
	(161,994)	(172,277)	(171,253)
<b>Total net assets</b>	<b>13,720</b>	<b>13,977</b>	<b>14,956</b>
Share capital	126	124	125
Share premium	1,840	1,838	1,840
IFRS basis shareholders' reserves	2,754	3,590	3,093
Total IFRS basis shareholders' equity	4,720	5,552	5,058
Additional EEV basis retained profit	9,000	8,425	9,898
<b>Shareholders' equity (excluding minority interests)</b>	<b>13,720</b>	<b>13,977</b>	<b>14,956</b>
* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.			
<b>Comprising:</b>			
Asian operations:			
Net assets	5,308	3,831	5,431
Acquired goodwill	141	172	172
	5,449	4,003	5,603
US operations	3,953	3,709	4,453
UK operations:			
Insurance business	4,677	5,956	4,919
M&G:			
Net assets	178	193	147
Acquired goodwill	1,153	1,153	1,153
	6,008	7,302	6,219
Other operations:			
Holding company net borrowings at market value (note 10)	(861)	(702)	(818)
Other net liabilities	(829)	(335)	(501)
<b>Shareholders' equity at end of period (excluding minority interests)</b>	<b>13,720</b>	<b>13,977</b>	<b>14,956</b>
Representing:			
Long-term business operations (note 11)	13,674	13,285	14,522
Other operations	46	692	434
	13,720	13,977	14,956

## **EUROPEAN EMBEDDED VALUE (EEV) BASIS RESULTS**

### **NOTES ON THE EEV BASIS RESULTS**

#### **1. Basis of preparation of results**

The EEV basis results have been prepared in accordance with the EEV Principles issued by the CFO Forum of European Insurance Companies in May 2004. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of two of the Group's defined benefit pension schemes. A very small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.

As regards the Group's defined benefit pension schemes, the liabilities attaching to the Prudential Staff Pension Scheme (PSPS) and Scottish Amicable Pension Scheme are excluded from the EEV value of UK operations and included in the total for Other operations. The amounts are partially attributable to the PAC with-profits fund and shareholder-backed long-term business and partially to other parts of the Group. In addition to the amounts recognised as attributable to shareholders under IFRS, a 10 per cent share of the amount attributable to the PAC with-profits fund is recognised for EEV reporting purposes.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The EEV basis results for 2009 and 2008 half years are unaudited. The 2008 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2008. The supplement included an unqualified audit report from the auditors.

#### **2. Methodology**

The same methodology has been applied for all periods included within these financial statements.

##### **Embedded value Overview**

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- present value of future shareholder cash flows from in-force covered business (value of in-force business), less a deduction for the cost of locked-in (encumbered) capital;
- locked-in (encumbered) capital; and
- shareholders' net worth in excess of encumbered capital (free surplus).

The value of future new business is excluded from the embedded value. In determining the embedded value or the profit before tax no smoothing of market account balance values, unrealised gains or investment returns is applied. Separately the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 4.

##### **Valuation of new business**

The contribution from new business represents profits determined by applying non-economic assumptions as at the end of the period.

In determining the new business contribution for UK immediate annuity and lifetime mortgage business, which is interest rate sensitive, it is appropriate to use point of sale economic assumptions, consistent with how the business is priced. For other business within the Group end of period economic assumptions are used.

### Level of encumbered capital

In adopting the EEV Principles, Prudential has based encumbered capital on its internal targets for economic capital subject to it being at least the local statutory minimum requirements. Economic capital is assessed using internal models but, when applying the EEV Principles, Prudential does not take credit for the significant diversification benefits that exist within the Group. For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the encumbered capital requirements. For shareholder-backed business the following capital requirements apply:

- Asian operations: the level of encumbered capital has been set at the higher of local statutory requirements and the economic capital requirement, but in aggregate, the encumbered capital is broadly in line with the amount required under the Insurance Groups Directive (IGD).
- US operations: the level of encumbered capital has been set to an amount at least equal to 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL), which is sufficient to meet the economic capital requirement.
- UK insurance operations: the capital requirements are set at the higher of Pillar I and Pillar II requirements for shareholder-backed business of UK insurance operations as a whole, which, for half year 2009, was Pillar I.

### Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period and shareholders' equity as they arise.

The results for any covered business conceptually reflects the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that for debt securities backing liabilities the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that are broadly speaking held with the intent and ability to be retained for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in the statement of comprehensive income rather than in the income statement, as shown in the movement in shareholders' equity.

## 3. Economic assumptions

### (a) Deterministic assumptions

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on cash or fixed interest securities. For the Group's Asian operations, the active basis is appropriate for business written in Japan, Korea and US dollar denominated business written in Hong Kong. Except in respect of the projected returns of holdings of Asian debt and equity securities for those countries where long-term fixed interest markets are less established, the 'active' basis of assumption setting has been applied in preparing the results of all the Group's US and UK long-term business operations.

For countries where long-term fixed interest markets are less established, investment return assumptions and risk discount rates are based on an assessment of longer-term economic conditions. Except for the countries listed above, this basis is appropriate for the Group's Asian operations. Similarly, the projected returns on holdings of Asian securities in these territories by other Group business are set on the same basis.

Expected returns on equity and property asset classes in respect of each territory are derived by adding a risk premium, also based on the long-term view of Prudential's economists, to the risk-free rate. In Asia, equity risk premiums range from 3.0 per cent to 7.0 per cent (half year 2008: 3.0 per cent to 6.0 per cent; full year 2008: 3.0 per cent to 7.0 per cent). In the US and the UK, the equity risk premium is 4.0 per cent for all periods for which results are prepared in this report.

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

The tables below summarise the principal financial assumptions:

Asian operations

	30 June 2009											
	China	Hong Kong (notes ii, iii)	India	Indonesia	Japan	Korea	Malaysia (note iii)	Philippines	Singapore (note iii)	Taiwan	Thailand	Vietnam
	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	11.75	5.1	14.25	15.25	5.1	9.2	9.25	15.75	5.65	9.0	13.0	16.75
In force	11.75	5.3	14.25	15.25	5.1	9.2	9.2	15.75	6.8	8.9	13.0	16.75
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.0	2.75	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	8.25	3.6	9.25	10.25	1.9	5.3	6.5	9.25	4.25	5.5	6.75	10.25

	30 June 2008											
	China	Hong Kong (notes ii, iii)	India	Indonesia	Japan	Korea	Malaysia (note iii)	Philippines	Singapore (note iii)	Taiwan	Thailand	Vietnam
	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	11.75	5.5	15.75	16.75	5.3	10.1	9.2	15.75	6.3	9.2	13.0	16.75
In force	11.75	5.6	15.75	16.75	5.3	10.1	9.2	15.75	6.7	9.6	13.0	16.75
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.7	2.75	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	8.25	3.9	9.25	10.25	2.15	6.1	6.5	9.25	4.25	5.5	6.75	10.25

	31 December 2008											
	China	Hong Kong (notes ii, iii)	India	Indonesia	Japan	Korea	Malaysia (note iii)	Philippines	Singapore (note iii)	Taiwan	Thailand	Vietnam
	%	%	%	%	%	%	%	%	%	%	%	%
Risk discount rate:												
New business	11.75	3.8	14.25	15.25	4.8	8.2	9.1	15.75	6.15	9.1	13.0	16.75
In force	11.75	3.9	14.25	15.25	4.8	8.2	9.0	15.75	6.85	9.7	13.0	16.75
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.7	2.75	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	8.25	2.3	9.25	10.25	1.6	4.3	6.5	9.25	4.25	5.5	6.75	10.25

	Asia total 30 Jun 2009	Asia total 30 Jun 2008	Asia total 31 Dec 2008
	%	%	%
Weighted risk discount rate (note (i)):			
New business (excluding Taiwan agency business)	9.4	9.9	8.7
In force (excluding Taiwan agency business)	8.5	8.8	8.0
In force (including Taiwan agency business)	N/A	8.8	7.8

**Notes**

- (i) The weighted risk discount rates for Asian operations shown above have been determined by weighting each country's risk discount rates by reference to the EEV basis operating result for new business and the closing value of in-force business.
- (ii) The assumptions shown are for US dollar denominated business which comprises the largest proportion of the in-force Hong Kong business.
- (iii) The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	30 Jun 2009	30 Jun 2008	31 Dec 2008
	%	%	%
Hong Kong	7.6	7.9	6.2
Malaysia	12.4	12.5	12.5
Singapore	10.2	9.3	10.2

To obtain the mean, an average over all simulations of the accumulated return at the end of the projection period is calculated. The annual average return is then calculated by taking the root of the average accumulated return minus 1.



US operations (Jackson)

	30 Jun 2009 %	30 Jun 2008 %	31 Dec 2008 %
Assumed spread margins (note (iii))			
New business			
Assumed long-term spread between earned rate and rate credited to policyholders for new tranches of Fixed Annuity business (note (i))	2.0	1.75	1.75
In force	1.75	1.75	1.75
Risk discount rate (note (ii)):			
New business	6.3	6.9	4.6
In force	5.7	5.9	3.9
US 10-year treasury bond rate at end of period	3.6	4.0	2.3
Pre-tax expected long-term nominal rate of return for US equities	7.6	8.0	6.3
Expected long-term rate of inflation	1.8	2.6	1.5

**Notes**

- (i) The expected long-term spread shown above for new tranches of fixed annuity business and the proportion of variable annuity new business invested in the general account for half year 2009 is assumed at a level of 2.75 per cent for the first 5 years and grades back to 2.0 per cent over the next 10 years. In addition, the assumed spread on Fixed Index Annuity new business tranches has been increased from 2.2 per cent at full year 2008 to 3.5 per cent. The increases in the spread assumptions are due primarily to the exceptional combined benefit of high investment yields with a net annualised yield on new assets of 7.0 per cent during the first half of 2009 and lower crediting rates. These revised assumptions include a provision that crediting rates and spreads will normalise in the future. Thus, the assumption for new business spreads for fixed annuities and the proportion of variable annuity business invested in the general account is set at the higher new level for the first five years before reducing over the following ten years. As before, the valuation of new business takes into account an assumed associated risk of increased lapse under certain interest rate scenarios.
- (ii) The risk discount rates at 30 June 2009 for new business and business in-force for US operations reflect weighted rates based on underlying rates of 7.6 per cent for variable annuity (VA) business and 4.3 per cent for other business. The increase in the weighted discount rates reflects the increase in the US 10-year treasury bond rate of 130 bps and a change in the product mix with the half year 2009 results seeing an increase in the proportion of new and in-force business arising from Variable Annuity business.
- (iii) **Credit risk treatment**  
The projected cash flows incorporate the expected long-term spread between the earned rate and the rate credited to policyholders. The projected earned rates reflect book value yields which are adjusted over time to reflect projected reinvestment rates. The expected spread for half year 2009 has been determined after allowing for a Risk Margin Reserve (RMR) allowance of 33 basis points for longer-term defaults as described in note 4. The RMR of 33 bps represents the allowance, as at 30 June 2009, applied in the cash flow projections of the value of the in-force business.  
In the event that longer-term default levels are higher then, unlike for UK annuity business where policyholder benefits are not changeable, Jackson has some discretion to adjust crediting rates, subject to contract guarantee levels and general market competition considerations.  
The results for Jackson reflect the application of the discount rates shown above. In the event that US 10-year treasury rates increase, the altered embedded value results would reflect a lower contribution from fixed annuity business and a partially offsetting increase for variable annuity business as the projected earned rate, as well as the discount rate, would increase for this type of business.  
At 31 December 2008, the book value yields, net of RMR allowance, were in excess of the risk discount rate. To correct for the anomalous effect that would otherwise occur no credit was taken in the financial statements for full year 2008 for the cost of capital benefit that this feature would have given rise to for fixed annuity business. As interest rates have subsequently risen such that the risk discount rate exceeds book value yield at 30 June 2009 no such adjustment is needed for the six months to 30 June 2009.

## UK insurance operations

	30 Jun 2009 %	30 Jun 2008 %	31 Dec 2008 %
<b>Shareholder-backed annuity business:</b>			
Risk discount rate (notes (i) and (iv))			
New business	11.0	8.9	9.6
In force	11.0	8.9	12.0
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business (note (iii)):			
Fixed annuities	6.7	6.2	6.7
Inflation-linked annuities	6.1	5.6	5.8
<b>Other business:</b>			
Risk discount rate (notes (ii) and (iv))			
New business	7.1	8.65	6.7
In force	7.0	8.5	6.75
Pre-tax expected long-term nominal rates of investment return:			
UK equities	8.1	9.2	7.7
Overseas equities	7.6 to 10.3	8.0 to 10.2	6.3 to 10.25
Property	6.4	7.4	6.0
Gilts	4.1	5.2	3.7
Corporate bonds – with-profits funds (note (iv))	5.6	6.9	5.2
– other business	5.6	6.9	5.2
Expected long-term rate of inflation	3.7	4.1	3.0
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:			
Pension business (where no tax applies)	6.75	8.3	6.6
Life business	6.1	7.4	5.8

## Notes

- (i) The new business risk discount rate for shareholder-backed annuity business for year end 2008 reflected the assets allocated to back new business with an allowance for credit risk based on point of sale market conditions, consistent with how the business was priced. The year end 2008 total allowance for credit risk has been retained for new business pricing during 2009 so the allowance for credit risk for new business at point of sale is consistent with the opening in-force assumption.
- (ii) The risk discount rate for new business and business in force for UK insurance operations other than shareholder-backed annuities reflect weighted rates based on the type of business.
- (iii) The pre-tax rates of return for shareholder-backed annuity business are based on the gross redemption yield on the backing assets net of a best estimate allowance for future defaults.
- (iv) Credit spread treatment  
For with-profits business, the embedded value reflects the discounted value of future shareholder transfers. These transfers are directly affected by the level of projected rates of return on investments, including debt securities. Given the current exceptional fixed interest market conditions, and the Company's expectation that the current widened credit spreads will not be maintained, the Company considers that it is most appropriate to assume an unchanged level of credit spreads, an unchanged level of longer-term default allowance and an unchanged risk discount rate methodology relative to those used at 31 December 2007.  
For UK annuity business, different dynamics apply both in terms of the nature of the business and the EEV methodology applied. For this type of business the assets are generally held to maturity to match long duration liabilities. It is therefore appropriate under EEV methodology to include a liquidity premium in the economic basis used. The appropriate EEV risk discount rate is set in order to equate the EEV with a "market consistent embedded value" including liquidity premium. The liquidity premium in the "market consistent embedded value" is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. The risk discount rate in the EEV reflects the excess of the total allowance for credit risk over the best estimate default assumptions. For Prudential Retirement Income Limited (PRIL), which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk at 30 June 2009 is made up of:
  - (a) 26 bps for fixed annuities and 13 bps for inflation-linked annuities in respect of long-term expected defaults. This is 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, to the asset portfolios.
  - (b) 17 bps for fixed annuities and 9 bps for inflation-linked annuities in respect of long-term credit risk premium for the potential volatility in default levels. This is derived by applying the 95th worst percentile from Moody's data from 1970 to 2004, to the asset portfolios.
  - (c) 46 bps for fixed annuities and 50 bps for inflation-linked annuities in respect of additional short-term credit risk, reflecting short-term credit rating downgrades and defaults in excess of the long-term assumptions. At 31 December 2008, this was derived as 25 per cent of the increase in credit spreads over swaps that has occurred since 31 December 2006 based on a set of externally published indices weighted to reflect the asset mix. During 2009, this element of the overall credit assumption 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 assumptions in (a) and (b) above and increased to eliminate the positive experience variance that would otherwise have arisen from the small number of actual defaults that were experienced in the period.

On a weighted basis for fixed annuities and inflation-linked annuities, the allowance at 30 June 2009 is 24 bps for long-term expected defaults, 15 bps for long-term credit risk premium, and 46 bps for short-term credit risk. This compares with the allowance at 31 December 2008 of 15 bps for long-term expected defaults, 11 bps for long-term credit risk premium, and 54 bps for short-term credit risk.

Pillar I reserves are calculated using a similar allowance for credit risk.

The Pillar I allowance of 85 bps per annum is financially equivalent to 236 bps from 1 July 2009 until 31 December 2011 and 44 bps thereafter for the life of the book.

The overall allowance for credit risk is prudent by comparison with historic rates of default and would be sufficient to withstand a wide range of extreme credit events over the expected lifetime of the annuity business.

## (b) Stochastic assumptions

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations described above. Assumptions specific to the stochastic calculations, such as the volatilities of asset returns, reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of longer-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with allowance for correlation between the various asset classes.

Details are given below of the key characteristics and calibrations of each model.

### Asian operations

- The same asset return models as used in the UK, appropriately calibrated, have been used for the Asian operations as described for UK insurance operations below. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property holdings do not represent a significant investment asset.
- The stochastic cost of guarantees is primarily only of significance for the Hong Kong, Malaysia and Singapore operations.
- The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns ranges from 18 per cent to 30 per cent (half year 2008: 18 per cent to 25 per cent; full year 2008: 18 per cent to 30 per cent), and the volatility of government bond yields ranges from 1.3 per cent to 2.4 per cent (half year 2008: 1.2 per cent to 2.5 per cent; full year 2008: 1.4 per cent to 2.4 per cent).

### US operations (Jackson)

- Interest rates are projected using a log-normal generator calibrated to actual market data;
- Corporate bond returns are based on Treasury securities plus a spread that has been calibrated to current market conditions and varies by credit quality; and
- Variable annuity equity and bond returns have been stochastically generated using a log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 18.6 per cent to 28.1 per cent across all reporting periods, depending on risk class, and the standard deviation of bond returns ranges from 1.4 per cent to 1.6 per cent (half year 2008: 1.4 per cent to 1.6 per cent; full year 2008: 1.5 per cent to 1.6 per cent).

### UK insurance operations

- Interest rates are projected using a two-factor model calibrated to actual market data;
- The risk premium on equity assets is assumed to follow a log-normal distribution;
- The corporate bond return is calculated as the return on a zero-coupon bond plus a spread. The spread process is a mean reverting stochastic process; and
- Property returns are modelled in a similar fashion to corporate bonds, namely as the return on a riskless bond, plus a risk premium, plus a process representative of the change in residual values and the change in value of the call option on rents.

Mean returns have been derived as the annualised arithmetic average return across all simulations and durations.

For each projection year, standard deviations have been calculated by taking the square root of the annualised variance of the returns over all the simulations. These have been averaged over all durations in the projection. For equity and property, the standard deviations relate to the total return on these assets. The standard deviations applied to all periods presented are as follows:

	%
Equities:	
UK	18.0
Overseas	16.0
Property	15.0

#### 4. Accounting presentation

##### Analysis of profit before tax

To the extent applicable, presentation of the EEV profit for the period is consistent with the basis that the Group applies for analysis of IFRS basis profits before shareholder taxes between operating and non-operating results. Operating results reflect the underlying results of the Group's continuing operations including longer-term investment returns. Operating results include the impact of routine changes of estimates and non-economic assumptions. Non operating results comprise short-term fluctuations in investment returns, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, the mark to market value movements on core borrowings and the effect of changes in economic assumptions and changes in the time value of cost of options and guarantees. In half year 2009 as a result of the exceptional dislocated market conditions, the Group incurred non-recurrent costs from an exceptional overlay short dated hedge to protect against tail events on the Group IGD capital position in addition to regular operational hedging programs. These costs have been shown separately within short-term fluctuations in investment returns. Also, in June 2009, the Group completed the disposal of the Taiwan agency business. The effect of this disposal and the results of the Taiwan agency business have been presented separately outside of the operating result.

##### Operating profit

Investment returns, including investment gains, in respect of long-term insurance business are recognised in operating results at the expected long-term rate of return. For the purpose of calculating the longer-term investment return to be included in the operating results of UK operations, where equity holdings are a significant proportion of investment portfolios, values of assets at the beginning of the reporting period are adjusted to remove the effects of short-term market volatility.

For the purposes of determining the long-term returns for debt securities of shareholder-backed operations, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit reflects the expected longer-term rate of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

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

Movements in the value of in-force business caused by changes in economic assumptions and the time value of cost of options and guarantees resulting from changes in economic factors are recorded in non-operating results.

#### 5. New business premiums, contributions and margins

Period ended 30 June 2009	New Business Premiums		Annual Premium Equivalents (note (i)) (APE)	Present Value of New Business Premiums (note (i)) (PVNBP)	Pre-Tax New Business Contribution (notes (ii) and (iii))	New Business Margin (note (i))	
	Single	Regular				(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
Asian operations (note (iv))	365	517	553	2,706	277	50	10.2
US operations (note (v))	3,798	12	392	3,889	292	74	7.5
UK insurance operations	2,451	131	376	3,062	122	32	4.0
<b>Total</b>	<b>6,614</b>	<b>660</b>	<b>1,321</b>	<b>9,657</b>	<b>691</b>	<b>52</b>	<b>7.2</b>

Period ended 30 June 2008	New Business Premiums		Annual Premium Equivalents (note (i)) (APE)	Present Value of New Business Premiums (note (i)) (PVNBP)	Pre-Tax New Business Contribution (notes (ii) and (iii))	New Business Margin (note (i))	
	Single	Regular				(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
Asian operations (note (iv))	931	555	648	3,435	289	45	8.4
US operations	3,453	11	356	3,537	137	38	3.9
UK insurance operations (note (vi))	3,125	125	438	3,664	129	29	3.5
<b>Total</b>	<b>7,509</b>	<b>691</b>	<b>1,442</b>	<b>10,636</b>	<b>555</b>	<b>38</b>	<b>5.2</b>

Year ended 31 Dec 2008	New Business Premiums		Annual Premium Equivalents (note (i)) (APE)	Present Value of New Business Premiums (note (i)) (PVNBP)	Pre-Tax New Business Contribution (notes (ii) and (iii))	New Business Margin (note (i))	
	Single	Regular				(APE)	(PVNBP)
	£m	£m	£m	£m	£m	%	%
Asian operations (note (iv))	1,340	1,082	1,216	6,508	634	52	9.7
US operations	6,917	24	716	7,140	293	41	4.1
UK insurance operations	6,929	254	947	8,081	273	29	3.4
<b>Total</b>	<b>15,186</b>	<b>1,360</b>	<b>2,879</b>	<b>21,729</b>	<b>1,200</b>	<b>42</b>	<b>5.5</b>

## Notes

- (i) New business margins are shown on two bases, namely the margins by reference to Annual Premium Equivalents (APE) and the Present Value of New Business Premiums (PVNBP). APEs 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.
- (ii) In determining the EEV basis value of new business written in the period the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.
- (iii) In general, as described in note 3 above, the use of point of sale or end of period economic assumptions is not significant in determining the new business contribution for different types of business and across financial reporting periods. However, to obtain proper measurement of the new business contribution for business which is interest rate sensitive, it is appropriate to use point of sale economic assumptions, consistent with how the business was priced. In practice, the only area within the Group where this has a material effect, particularly in light of the recent dislocation of markets, is for UK shareholder-backed annuity and lifetime mortgage business. The half year 2009 and full year 2008 results for shareholder-backed annuity and lifetime mortgage business have been prepared on the basis of point of sale rather than end of period economic assumptions which previously applied for EEV reporting. For half year 2008, the effect of the use of point of sale market conditions would not have been material.  
New business contributions for all business represent profits determined by applying non-economic assumptions as at the end of the period.
- (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 12) are excluded from the tables. Comparative figures have been adjusted accordingly.
- (v) The increase in new business margin for US operations in half year 2009 reflects the significant changes to target spread for Fixed Annuity and Fixed Index Annuity business primarily as a result of the exceptional combined benefit of high investment yields on new assets and lower crediting rates, as described in note 3 above.
- (vi) To align with the treatment in the half year 2009 and full year 2008 results, the tables for UK insurance operations above for half year 2008 reflect the inclusion of the Group's UK health insurance joint venture operation, PruHealth, with an APE of £8 million and PVNBP of £79 million.

## 6. Operating profit from business in-force

	Unwind of discount and other expected returns (note(ii)) £m	Effect of change in operating assumptions (note (ii)) £m	Experience variances and other items (note (iii)) £m	Total £m
<b>Period ended 30 June 2009</b>				
Asian operations (note (iv))	248	(64)	(60)	124
US operations	142	(13)	80	209
UK operations	291	-	(7)	284
<b>Total</b>	<b>681</b>	<b>(77)</b>	<b>13</b>	<b>617</b>
<b>Period ended 30 June 2008</b>				
Asian operations (note (iv))	193	18	(40)	171
US operations	137	44	36	217
UK operations (note (v))	350	-	11	361
<b>Total</b>	<b>680</b>	<b>62</b>	<b>7</b>	<b>749</b>
<b>Year ended 31 December 2008</b>				
Asian operations (note (iv))	409	165	5	579
US operations	233	(17)	77	293
UK operations (note (vi))	569	-	195	764
<b>Total</b>	<b>1,211</b>	<b>148</b>	<b>277</b>	<b>1,636</b>

## Notes

- (i) **Unwind of discount and other expected returns**  
The unwind of discount and other expected returns is determined by reference to the value of in-force business, required capital and surplus assets at the start of the period as adjusted for the effect of changes in economic and operating assumptions reflected in the current period. For the unwind of discount for UK insurance operations included in operating results based on longer-term returns a further adjustment is made. For UK insurance operations the amount shown above represents the unwind of discount on the value of in-force business at the beginning of the period (adjusted for the effect of current period assumption changes), the expected return on smoothed surplus assets retained within the PAC with-profits fund and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. The increase for Asian operations from £193 million for half year 2008 to £248 million for half year 2009 primarily reflects the increase in the value of in-force business from 1 January 2008 to 1 January 2009. The reduction for UK operations in unwind of discount and other expected returns from £350 million for half year 2008 to £291 million reflects the decrease in the value of in-force business from 1 January 2008 to 1 January 2009.
- (ii) **Effect of changes in operating assumptions**  
The charge of £64 million for Asian operations comprises £60 million for changes to persistency assumptions, £9 million in respect of expenses and a net credit of £5 million for other items. The persistency assumption changes are mainly as a direct consequence of the impact on policyholders' savings behaviour from adverse economic and market conditions, arising mostly with investment related products, principally in Korea (£23 million), and Hong Kong (£14 million).  
The charge of £13 million for US operations comprises a charge of £56 million for persistency, offset by credits of £35 million for mortality assumption changes and £8 million for other items. The charge for persistency comprises £30 million for an increase in the assumed utilisation of the partial withdrawal option on Variable and Fixed Annuity business, and £26 million for the effect of other altered lapse rates, in line with experience. The £35 million credit for mortality reflects lower mortality rates for the Life of Georgia business, based upon actual experience since the acquisition of the business in 2005.
- (iii) **Experience variance and other items**  
The £60 million charge for Asian operations primarily reflect the effects of adverse persistency of £47 million, as customers have withdrawn from investment related products (for which assumptions have been strengthened, as explained in note (ii)), including a charge in Korea of £18 million. The residual £13 million charge reflects a combination of adverse expense experience as sales levels have been less than target given current market conditions, offset by the favourable mortality and morbidity experience.
- (iv) In order to facilitate comparisons of results of the Group's retained businesses the operating profits for Asian operations, including those from business in-force exclude the element related to the sold Taiwan agency business. Note 12 shows the effect of the adjusted presentation of comparative basis results for half year and full year 2008.
- (v) The presentation of the half year 2008 results have been adjusted to show £14 million of UK general insurance commission separately from the long-term business EEV results. Total operating profit from UK insurance operations is unaffected by this reclassification.
- (vi) The credit of £195 million for UK operations for full year 2008 includes £118 million resulting from part of the effect of rebalancing assets, including lifetime mortgage assets, that support the shareholder-backed annuity portfolio. For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may from time to time take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the risk adjusted yield on the assets used to determine the valuation interest rate for calculating the carrying value of policyholder liabilities. In full year 2008 the amount of £118 million included in operating profit for the effect of rebalancing the portfolio was calibrated to investment conditions at 31 December 2006 i.e. prior to the exceptional spread widening in 2007 and 2008. The additional increase in the Pillar I valuation interest rate due to rebalancing at the credit spreads at which assets were traded in 2008 is reflected within non-operating profit together with, via the increase in discount rate, the additional allowance for credit risk for the portfolio as a whole as described in note 8.

## 7. Short-term fluctuations in investment returns

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Insurance operations:			
Asia (note (i))	101	(455)	(903)
US (note (ii))	(304)	(297)	(1,344)
UK (note (iii))	(363)	(959)	(2,407)
	(566)	(1,711)	(4,654)
Other operations			
IGD hedge costs (note (iv))	(216)	-	-
Other (note (v))	75	(157)	(313)
	(141)	(157)	(313)
<b>Total</b>	<b>(707)</b>	<b>(1,868)</b>	<b>(4,967)</b>

## Notes

### (i) Asian operations

	Half year 2009 £m	Half year 2008 £m	Full year 2008 £m
Singapore	72	(103)	(310)
Hong Kong	(15)	(59)	(284)
Vietnam	(14)	(151)	(82)
Other operations	58	(142)	(227)
	<b>101</b>	<b>(455)</b>	<b>(903)</b>

The short-term fluctuations in Asia reflect the effect of strong equity market performance across the region offset by the impact of negative bond returns, particularly in Hong Kong, Malaysia and Singapore. In addition in Vietnam there was a switch in the portfolio from equities to other assets in early 2009.

### (ii) US operations (Jackson)

The short-term fluctuations in investment returns for US operations primarily reflect the impact of impairment losses on debt securities and the effects on the value of variable annuity business of adverse movements in US equity markets. The fluctuations for US operations comprise the following items:

	Half Year 2009 £m	Half Year 2008 £m	Full Year 2008 £m
Short-term fluctuations in investment returns			
Actual realised losses less default assumption and amortisation of interest related gains and losses for fixed income securities and related swap transactions	(287)	(116)	(463)
Actual less long-term return on equity based investments and other items	(75)	(43)	(148)
Investment return related gain (loss) due primarily to changed expectation of profits on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity for equity related products*	58	(138)	(733)
Total Jackson	<b>(304)</b>	<b>(297)</b>	<b>(1,344)</b>

\* 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 2009 £m	Half year 2008 £m	Full year 2008 £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)
	<b>(363)</b>	<b>(959)</b>	<b>(2,407)</b>

## Notes

- 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.
- Short-term fluctuations in investment returns on shareholder-backed annuity business primarily represent value movements on assets backing the capital of the business.
- 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 economic assumptions £m	Change in time value of cost of options and guarantees £m	Total £m	Change in economic assumptions £m	Change in time value of cost of options and guarantees £m	Total £m	Change in economic assumptions £m	Change in time value of cost of options and guarantees £m	Total £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 2008		
	Shareholder-backed annuity business (note (a)) £m	With-profits and other business (note (b)) £m	Total £m	Shareholder-backed annuity business £m	With-profits and other business £m	Total £m	Shareholder-backed annuity business (note (c)) £m	With-profits and other business £m	Total £m
Effect of change in expected long-term rates of return	(264)	78	(186)	64	387	451	83	(1,082)	(999)
(Increase) decrease in risk discount rates	105	(113)	(8)	(187)	(355)	(542)	(394)	668	274
Other changes	-	(70)	(70)	(3)	16	13	(6)	(52)	(58)
	(159)	(105)	(264)	(126)	48	(78)	(317)	(466)	(783)

### 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 2009 £m	Half year 2008 £m	Full year 2008 £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 £m	30 Jun 2008 £m	31 Dec 2008 £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 £m	30 Jun 2008 £m	31 Dec 2008 £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. Group analysis of underlying business activity

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)) £m	Required capital (note (iii)) £m	Net worth £m	Value of in-force £m	Total £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)) £m	Required capital (note (iii)) £m	Net worth £m	Value of in-force £m	Total £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 2009 £m	Half year 2008 £m	Full year 2008 £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 £m	Adjustment £m	Adjusted £m	As previously published £m	Adjustment £m	Adjusted £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.