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Notes on the EEV basis supplementary information

1. Basis of preparation

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 and expanded by the Additional Guidance on EEV Disclosures published in October 2005. 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 fund 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 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. In 2006, a bulk annuity arrangement between SAIF and Prudential Retirement Income Limited (PRIL), a shareholder-owned subsidiary, took place as explained in note 5a. Reflecting the altered economic interest from SAIF policyholders to Prudential shareholders, this arrangement represents a transfer from business of the Group that is not 'covered' to business that is 'covered' with consequential effect on the EEV basis results.

As regards the Group's defined benefit pension schemes, the surplus or deficit attaching to the Prudential Staff Pension Scheme (PSPS) and Scottish Amicable Pension scheme are excluded from the value of UK operations and included in the total for other operations. The surplus and deficit amounts are partially attributable to the Prudential Assurance Company (PAC) with-profits fund and shareholder-backed long-term business and partially to other parts of the Group. In addition to the IFRS surplus or deficit, the shareholders' 10 per cent share of the PAC with-profits sub-fund's interest in the movement on the financial position of the schemes is recognised for EEV reporting purposes.

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

2. Methodology

(a) 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.

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in notes 4 and 6) no smoothing of market or account balance values, unrealised gains or investment returns is applied in determining the embedded value or the profit before tax.

Value of in-force business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, surrender levels and mortality. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the year.

2. Methodology continued

Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as encumbered capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (net of tax) on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where capital is held within a with-profits long-term fund, the value placed on surplus assets in this fund is already discounted to reflect their release over time and no further adjustment is necessary in respect of encumbered capital. However, where business is funded directly by shareholders, the capital requires adjustment to reflect the cost of that capital to shareholders.

Financial options and guarantees

Nature of options and guarantees in Prudential's long-term business

UK insurance operations

The only significant financial options and guarantees in the UK insurance operations arise in the with-profits sub-fund and SAIF. With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The with-profits sub-fund held a provision on the Pillar 1 Peak 2 basis of £47 million (2005: £52 million) at 31 December 2006 to honour guarantees on a small amount of guaranteed annuity option products.

Beyond the generic features described above, and the provisions held in respect of guaranteed annuities, there are very few explicit options or guarantees of the with-profits sub-fund such as minimum investment returns, surrender values, or annuity values at retirement and any granted have generally been at very low levels.

The Group's main exposure to guaranteed annuity options in the UK is through SAIF and a provision on the Pillar 1 Peak 2 basis of £561 million (2005: £619 million) was held in SAIF at 31 December 2006 to honour the guarantees.

Jackson National Life (Jackson)

The principal options and guarantees in Jackson are associated with the fixed annuity and variable annuity lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.5 per cent to 5.5 per cent (2005: 1.5 per cent to 5.5 per cent), depending on the particular product, jurisdiction where issued, and date of issue. At 31 December 2006, 70 per cent (2005: 73 per cent) of the fund relates to policies with guarantees of three per cent or less. The average guarantee rate is 3.2 per cent (2005: 3.3 per cent).

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Variable annuity contracts may contain guarantees of certain minimum payments in the event of death, withdrawal or annuitisation. These guarantees may be related to (a) the amount of total deposits made to the contract adjusted for any partial withdrawals, (b) the total deposits made to the contract adjusted for any partial withdrawals, plus a minimum annual return, or (c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary.

These guarantees generally protect the policyholder's value in the event of poor equity market performance.

Jackson also issues fixed index annuities that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns would be of a similar nature to those described above for fixed annuities.

Asian operations

Subject to local market circumstances and regulatory requirements, the guarantee features described above in respect of UK business broadly apply to similar types of participating contracts written in the PAC Hong Kong branch, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

Non-participating long-term products are the only ones where the insurer is contractually obliged to provide guarantees on all benefits. The most significant book of non-participating business in the Group's Asian operations is Taiwan's whole of life contracts. For these contracts there are floor levels of policyholder benefits that accrue at rates set at inception by reference to minimum returns established by local regulation. These rates do not vary subsequently with market conditions. Under these contracts the cost of premiums are also fixed at inception based on a number of assumptions at that time, including long-term interest rates, mortality assumptions and expenses. The guaranteed maturity and surrender values reflect the pricing basis.

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2. Methodology continued

Time value

The value of financial options and guarantees comprises two parts. One is given by a deterministic valuation on best estimate assumptions (the intrinsic value). The other part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the value of the in-force business including the cost of capital. A deterministic valuation of the in-force business is also derived using consistent assumptions and the time value of the financial options and guarantees is derived as the difference between the two.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations such as equity volatility and credit losses reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-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 an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in note 3.

(b) 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 the UK and Asia, the capital available in the fund is sufficient to meet the encumbered capital requirements.

- UK: the economic capital requirements for annuity business are fully met by Pillar I requirements being four per cent of mathematical reserves, which are also sufficient to meet Pillar II requirements;
- US: the level of encumbered capital has been set as 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners at the Company Action Level (CAL), which is sufficient to meet the economic capital requirement;
- Asia: the economic capital requirement is substantially higher than local statutory requirements in total. Economic capital requirements vary by territory, but in aggregate, the encumbered capital is equivalent to the amount required under the Financial Conglomerates Directive (FCD).

The table below summarises the levels of encumbered capital as a percentage of the relevant statutory requirement:

	Capital as a percentage of relevant statutory requirement
UK insurance operations	100% of EU minimum
Jackson	235% of CAL
Asian operations	100% of FCD

(c) Risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set equal to risk-free rates plus a risk margin. The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in risk inherent in each product group. The risk discount rate so derived does not reflect a market beta but instead reflects the expected volatility associated with the cash flows in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

As Prudential's UK shareholder-backed annuity business is predominantly backed by fixed interest securities, the beta methodology described above is not appropriate. We have therefore used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected cash flows.

In the annuity MCEV calculations, the future cash flows were discounted using the gilt yield curve plus 34 basis points (2005: gilt yield curve plus 27 basis points). The 34 basis points was based on our assessment of the liquidity premium available in the yield on the assets backing the annuity liabilities.

2. Methodology continued

Allowance for risk

The risk allowance in the risk discount rate is determined as follows:

Market risk

Under the Capital Asset Pricing Methodology (CAPM) the discount rate is determined as:

Discount rate = risk-free rate + (beta x equity risk premium)

Under CAPM, the beta of a portfolio or product measures its relative market risk.

The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. They are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return it is possible to derive a product specific beta.

CAPM does not include any allowance for non-market risks since these are assumed to be fully diversifiable. For EEV purposes, however, a risk margin is added for non-diversifiable non-market risks and to cover Group level risks.

Product-level betas are calculated each year. They are combined with the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Diversifiable non-market risks

No allowance is required for non-market risks where these are assumed to be fully diversifiable. The majority of non-market risks are considered to be diversifiable.

Non-diversifiable, non-market risks

Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been used.

A constant margin of 50 basis points (2005: 50 basis points) has been added to the risk margin derived for market risk to cover the non-diversifiable non-market risks associated with the business. For UK shareholder-backed annuity business an additional margin of 100 basis points was used (2005: 100 basis points).

(d) Management actions

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, the following areas:

- investment allocation decisions;
- levels of reversionary bonuses and credited rates; and
- total claim values.

Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits sub-fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management.

(e) With-profits business and the treatment of the estate

For the PAC with-profits sub-fund, the shareholders' interest in the estate is derived by increasing terminal bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. In those few extreme scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders.

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Notes on the EEV basis supplementary information continued

2. Methodology continued

(f) Pension costs

The Group operates three defined benefit schemes in the UK. The principal scheme is the Prudential Staff Pension Scheme (PSPS). The other two, much smaller, schemes are the Scottish Amicable and M&G schemes. There is also a small scheme in Taiwan.

Under IFRS the surpluses or deficits attaching to these schemes are accounted for in accordance with the provisions of IAS 19. The surpluses or deficits represent the difference between the market value of the schemes' assets and the discounted value of projected future benefit payments to retired members and deferred pensioners and, to the extent of service to date, current employed members.

For PSPS the surplus or deficit at the reporting date is allocated between the PAC with-profits sub-fund and shareholder-backed operations by reference to the activities of the members of the scheme during their period of service. For the 2005 year end the deficit at that time was allocated in the ratio 70/30. This ratio has continued to be applied to movements in the financial position that relate to opening assets and liabilities at 1 January 2006. However, the service charge and contribution for ongoing service are allocated by reference to the cost allocation for current business.

Under the EEV basis the IAS 19 basis surplus or deficit is initially allocated in the same manner. The shareholders' 10 per cent interest in the PAC with-profits sub-fund estate is determined after inclusion of the portion of the IAS 19 basis surplus or deficit attributable to the fund. Adjustments under EEV in respect of accounting for surpluses or deficits on defined benefit schemes are reflected as part of 'Other Operations', as shown in note 15.

Separately, the projected cash flows of in-force covered business include contributions to the defined benefit schemes for future service based on the contribution basis applying to the schemes at the time of the preparation of the results.

(g) Debt capital

Core structural debt liabilities are carried at market value.

3. Assumptions

(a) Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

(b) Principal economic assumptions

Deterministic

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. This 'active' basis of assumption setting has been applied in preparing the results of all the Group's UK and US long-term business operations. 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.

3. Assumptions continued

An exception to this general rule is that for countries where long-term fixed interest markets are underdeveloped, 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.

Expected returns on equity and property asset classes are derived by adding a risk premium, also based on the long-term view of Prudential's economists in respect of each territory, to the risk-free rate. In the UK, the equity risk premium is 4.0 per cent (2005: 4.0 per cent) above risk-free rates. The equity risk premium in the US is also 4.0 per cent (2005: 4.0 per cent). In Asia, equity risk premiums range from 3.0 per cent to 5.8 per cent (2005: 3.0 per cent to 5.75 per cent). Best estimate assumptions for other asset classes, such as corporate bond spreads, are set consistently.

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

The table below summarises the principal financial assumptions:

	31 Dec 2006 %	31 Dec 2005 %
UK insurance operations		
Risk discount rate:		
New business	**7.8**	7.55
In force	**8.0**	7.7
Pre-tax expected long-term nominal rates of investment return:		
UK equities	**8.6**	8.1
Overseas equities	**8.6 to 9.3**	8.1 to 8.75
Property	**7.1**	6.4
Gilts	**4.6**	4.1
Corporate bonds	**5.3**	4.9
Expected long-term rate of inflation	**3.1**	2.9
Post-tax expected long-term nominal rate of return for the with-profits fund:		
Pension business (where no tax applies)	**7.5**	7.1
Life business	**6.6**	6.3
US operations (Jackson)		
Risk discount rate:		
New business	**7.6**	6.9
In force	**6.7**	6.1
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	**1.75**	1.75
US 10-year treasury bond rate at end of period	**4.8**	4.4
Pre-tax expected long-term nominal rate of return for US equities	**8.8**	8.4
Expected long-term rate of inflation	**2.5**	2.4

Notes on the EEV basis supplementary information continued

3. Assumptions continued

Asian operations

	China 31 Dec 2006 %	Hong Kong (notes iii, iv, v) 31 Dec 2006 %	India 31 Dec 2006 %	Indonesia 31 Dec 2006 %	Japan 31 Dec 2006 %	Korea 31 Dec 2006 %	China 31 Dec 2005 %	Hong Kong (notes iii, iv, v) 31 Dec 2005 %	India 31 Dec 2005 %	Indonesia 31 Dec 2005 %	Japan 31 Dec 2005 %	Korea 31 Dec 2005 %
Risk discount rate:												
New business	**12.0**	**6.6**	**16.5**	**17.5**	**5.3**	**9.5**	12.0	5.9	16.5	17.5	5.0	10.3
In force	**12.0**	**6.8**	**16.5**	**17.5**	**5.3**	**9.5**	12.0	6.15	16.5	17.5	5.0	10.3
Expected long-term rate of inflation	**4.0**	**2.25**	**5.5**	**6.5**	**0.0**	**2.75**	4.0	2.25	5.5	6.5	0.0	2.75
Government bond yield	**9.0**	**4.7**	**10.5**	**11.5**	**2.1**	**5.0**	9.0	4.8	10.5	11.5	1.8	5.8

	Malaysia (notes iv, v) 31 Dec 2006 %	Philippines 31 Dec 2006 %	Singapore (notes iv, v) 31 Dec 2006 %	Taiwan (notes ii, v) 31 Dec 2006 %	Thailand 31 Dec 2006 %	Vietnam 31 Dec 2006 %	Malaysia (notes iv, v) 31 Dec 2005 %	Philippines 31 Dec 2005 %	Singapore (notes iv, v) 31 Dec 2005 %	Taiwan (notes ii, v) 31 Dec 2005 %	Thailand 31 Dec 2005 %	Vietnam 31 Dec 2005 %
Risk discount rate:												
New business	**9.5**	**16.5**	**6.9**	**8.8**	**13.75**	**16.5**	9.4	16.5	6.7	9.0	13.75	16.5
In force	**9.2**	**16.5**	**6.9**	**9.3**	**13.75**	**16.5**	9.0	16.5	6.8	9.4	13.75	16.5
Expected long-term rate of inflation	**3.0**	**5.5**	**1.75**	**2.25**	**3.75**	**5.5**	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	**7.0**	**10.5**	**4.5**	**5.5**	**7.75**	**10.5**	7.0	10.5	4.5	5.5	7.75	10.5

	Asia total 31 Dec 2006 %	Asia total 31 Dec 2005 %
Weighted risk discount rate (note i):		
New business	**9.8**	9.8
In force	**8.8**	8.4

Notes

(i) The weighted discount rates for the Asian operations shown above have been determined by weighting each country's discount rates by reference to the EEV basis operating result for new business and the closing value of in-force business.

(ii) For traditional business in Taiwan, the economic scenarios used to calculate the 2006 and 2005 EEV basis results reflect the assumption of a phased progression of the bond yields from the current rates applying to the assets held to the long-term expected rates. The projections assume that in the average scenario, the current bond yields of around 2 per cent trend towards 5.5 per cent at 31 December 2013 (2005: 2 per cent trend towards 5.5 per cent at 31 December 2012).

In projecting forward the Fund Earned Rate, allowance is made for the mix of assets in the fund, future investment strategy, and further market value depreciation of bonds held as a result of assumed future yield increases. These factors, together with the assumption of the phased progression in bond yields, give rise to an average assumed Fund Earned Rate that trends from 2.1 per cent for 2006 to 5.7 per cent for 2014. The assumed Fund Earned Rate falls to 1.4 per cent in 2007 and remains below 2.1 per cent for a further five years. This feature is due to the depreciation of bond values as yields rise. Thereafter, the assumed Fund Earned Rate fluctuates around a target of 5.9 per cent. This projection compares with that applied for the 2005 results of a grading from an assumed rate of 2.3 per cent for 2005 to 5.4 per cent for 2013. Consistent with the EEV methodology applied, a constant discount rate has been applied to the projected cash flows.

(iii) The assumptions shown are for US dollar denominated business which comprises the larger proportion of the in-force Hong Kong business.

(iv) Assumed equity yields
The most significant equity holdings in the Asian operations are in Hong Kong, Singapore and Malaysia. The mean equity return assumptions for those territories at 31 December 2006 were 8.7 per cent (31 December 2005: 8.6 per cent), 9.3 per cent (31 December 2005: 9.3 per cent) and 12.8 per cent (31 December 2005: 12.8 per cent) respectively. 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.

(v) For Singapore, Malaysia, Taiwan and Hong Kong, cash rates are used in setting the risk discount rates.

3. Assumptions continued

Stochastic

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.

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.

The rates to which the model has been calibrated are set out below:

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

Standard deviations have been calculated by taking the annualised variance of the returns over all the simulations, taking the square root and averaging over all durations in the projection. For bonds the standard deviations relate to the yields on bonds of the average portfolio duration. For equity and property, they relate to the total return on these assets. The standard deviations applied are as follows:

	Standard deviation	
	2006	2005
Government bond yield	**2.0**	2.0
Corporate bond yield	**5.5**	5.5
Equities:		
UK	**18.0**	18.0
Overseas	**16.0**	16.0
Property	**15.0**	15.0

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 regime-switching 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 (2005: 18.6 per cent to 28.1 per cent), depending on risk class, and the volatility of bond funds ranges from 1.4 per cent to 2.0 per cent (2005: 1.4 per cent to 1.8 per cent).

Asian operations

The same asset return models, as used in the UK, appropriately calibrated, has been used for the Asian operations. The principal asset classes are government and corporate bonds. Equity holdings are much lower than in the UK whilst property is not held as an investment asset.

The stochastic cost of guarantees is only of significance for the Hong Kong, Singapore, Malaysia and Taiwan operations.

The mean stochastic returns are consistent with the mean deterministic returns for each country. The volatility of equity returns ranges from 18 per cent to 25 per cent (2005: 18 per cent to 26 per cent) and the volatility of government bond yields ranges from 1.4 per cent to 2.5 per cent (2005: 1.3 per cent to 2.2 per cent).

Notes on the EEV basis supplementary information continued

3. Assumptions continued

(c) Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

(d) Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately.

Asia development and Regional Head Office expenses are charged to EEV basis results as incurred. No adjustment is made to the embedded value of covered business as the amounts of expenditure that relate to operating expenses are not material. Similarly, corporate expenditure for Group Head Office, to the extent not allocated to the PAC with-profits sub-fund, is charged to the EEV basis result as incurred.

(e) Inter-company arrangements

The EEV results for covered business incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to Prudential Retirement Income Limited, as described in note 5(a). In addition, the analysis of free surplus and value of in-force business takes account of the impact of contingent loan arrangements between Group companies.

(f) Taxation and other legislation

Current taxation and other legislation has been assumed to continue unaltered except where changes have been announced and the relevant legislation passed.

(g) Fund management and service companies

The value of future profits or losses from fund management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business.

4. Accounting presentation

(a) Analysis of profit before tax

To the extent applicable, presentation of the EEV profit for the year is consistent with the basis 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 include certain recurrent and exceptional items that primarily do not reflect the performance in the year of the Group's continuing operations.

(b) Investment return

Profit before tax

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

In the case of Jackson, market value movements on debt securities are initially recorded as movements in shareholder reserves, reflecting the available-for-sale (AFS) categorisation under IFRS. Similarly, the value movements on derivatives are recorded in the income statement. However, it is assumed that fixed income investments backing liabilities will normally be held until maturity. Therefore, unrealised gains and losses on these securities are not reflected in either the EEV or statutory basis results and, except on realisation or impairment of investments, only income received and the amortisation of the difference between cost and maturity values are recognised to the extent attributable to shareholders. This is consistent with the basis of valuation of future cash flows of in-force business, which inter alia, reflects spread basis earnings which are not directly affected by short-term value movements in fixed income securities. Similar principles apply to value movements on Jackson's derivatives that are fair valued for IFRS reporting with value movements booked in the IFRS income statement. From 31 December 2006, fixed income securities backing the free surplus and required capital are accounted for at fair value. However, consistent with the AFS treatment applied for IFRS, movements in unrealised appreciation are accounted for in equity rather than in the income statement.

Investment returns reflect those earned on a market basis over the period without smoothing, but after appropriate adjustments for movements in the additional shareholders' interest recognised on the EEV basis.

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 purposes 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.

4. Accounting presentation continued

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. Interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds. For equity-related investments of Jackson, a long-term rate of return is assumed, which reflects the aggregation of risk-free rates and equity risk premium.

(c) Pension costs

Profit before tax

Movements on the shareholders' share of surplus or deficit of the Group's defined benefit pension schemes adjusted for contributions paid in the year are recorded within the income statement. Consistent with the basis of distribution of bonuses and the treatment of the estate described in notes 2d) and 2e), the shareholders' share incorporates 10 per cent of the proportion of the surplus or deficit attributable to the PAC with-profits sub-fund. The surplus or deficit is determined by applying the requirements of IAS 19.

Actuarial gains and losses

Actuarial gains and losses comprise:

- the difference between actual and expected return on the scheme assets;
- experience gains and losses on scheme liabilities; and
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities.

These items are recorded in the income statement but, consistent with the IFRS basis of presentation, are excluded from operating results.

(d) 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.

(e) Results for fund management operations

The results of the Group's fund management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margin for the year on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.

(f) Capital held centrally for Asian operations

In adopting the EEV Principles Prudential has decided to set encumbered capital at its internal targets for economic capital. In Asia, the economic capital target is substantially higher than the local statutory requirements in total. Accordingly, capital is held centrally for Asian operations. For the purposes of the presentation of the Group's operating results, it is assumed that the centrally held capital is lent interest free to the Asian operations. In turn, the results of the Asian operations include the return on that capital and Group shareholders' other income for EEV basis reporting is consequently reduced.

(g) Taxation

The EEV profit for the year for covered business is calculated initially at the post-tax level. The post-tax profit is then grossed up for presentation purposes at the effective rate of tax. In general, the effective rate corresponds to the corporation tax rate on shareholder profits of the business concerned.

(h) Foreign currency translation

Foreign currency profit and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange. The purpose of translating the profit and losses at average exchange rates, notwithstanding the fact that EEV profit represents the incremental value added on a discounted cash flow basis, is to maintain consistency with the methodology applied for IFRS basis reporting.

The principal exchange rates applied are:

Local currency: £	**Closing rate at 31 Dec 2006**	**Average for 2006**	Closing rate at 31 Dec 2005	Average for 2005	Opening rate at 1 Jan 2005
Hong Kong	**15.22**	**14.32**	13.31	14.15	14.92
Japan	**233.20**	**214.34**	202.63	200.13	196.73
Malaysia	**6.90**	**6.76**	6.49	6.89	7.30
Singapore	**3.00**	**2.93**	2.85	3.03	3.13
Taiwan	**63.77**	**59.95**	56.38	58.47	60.84
US	**1.96**	**1.84**	1.72	1.82	1.92

Notes on the EEV basis supplementary information continued

5. Premiums, operating profit and margins from new business

(a) Premiums and contributions

	Single		Regular		Annual premium and contribution equivalents		Present value of new business premiums	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
UK insurance operations								
Direct to customer								
Individual annuities	**816**	720	**–**	–	**82**	72	**816**	720
Individual pensions and life	**60**	29	**9**	11	**15**	14	**99**	70
Department of Work and Pensions rebate business	**161**	244	**–**	–	**16**	24	**161**	244
Total	**1,037**	993	**9**	11	**113**	110	**1,076**	1,034
Business to business								
Corporate pensions	**536**	242	**162**	146	**216**	170	**1,071**	772
Individual annuities	**264**	212	**–**	–	**26**	21	**264**	212
Bulk annuities	**85**	511	**–**	–	**8**	51	**85**	511
Total	**885**	965	**162**	146	**250**	242	**1,420**	1,495
Intermediated distribution								
Life	**961**	1,112	**5**	6	**101**	118	**995**	1,149
Individual annuities	**919**	995	**–**	–	**92**	100	**919**	995
Individual and corporate pensions	**130**	108	**22**	25	**35**	36	**228**	195
Total	**2,010**	2,215	**27**	31	**228**	254	**2,142**	2,339
Partnerships								
Life	**840**	814	**3**	3	**87**	84	**855**	835
Individual and bulk annuities:								
Bulk annuity reinsurance from the Scottish Amicable Insurance Fund*	**560**	–	**–**	–	**56**	–	**560**	–
Individual and other bulk annuities	**1,500**	1,814	**–**	–	**150**	182	**1,500**	1,814
Total	**2,900**	2,628	**3**	3	**293**	266	**2,915**	2,649
Europe								
Life	**159**	201	**–**	–	**16**	20	**159**	201
Total UK insurance operations	**6,991**	7,002	**201**	191	**900**	892	**7,712**	7,718
US operations								
Fixed annuities	**688**	788	**–**	–	**69**	79	**688**	788
Fixed index annuities	**554**	616	**–**	–	**55**	62	**554**	616
Variable annuities	**3,819**	2,605	**–**	–	**382**	261	**3,819**	2,605
Life	**8**	11	**17**	14	**18**	15	**147**	137
Guaranteed Investment Contracts	**458**	355	**–**	–	**46**	35	**458**	355
GIC – Medium Term Notes	**437**	634	**–**	–	**44**	63	**437**	634
Total US operations	**5,964**	5,009	**17**	14	**614**	515	**6,103**	5,135
Asian operations								
China	**27**	17	**36**	23	**39**	25	**198**	144
Hong Kong	**355**	289	**103**	83	**139**	112	**933**	741
India (Group's 26% interest)	**20**	4	**105**	57	**107**	57	**411**	215
Indonesia	**31**	42	**71**	42	**74**	46	**269**	186
Japan	**68**	30	**7**	4	**14**	7	**97**	50
Korea	**103**	29	**208**	132	**218**	135	**1,130**	578
Malaysia	**4**	9	**72**	66	**72**	67	**418**	383
Singapore	**357**	284	**72**	58	**108**	86	**803**	704
Taiwan	**92**	124	**139**	150	**148**	162	**743**	912
Other	**15**	9	**36**	33	**37**	34	**130**	126
Total Asian operations	**1,072**	837	**849**	648	**956**	731	**5,132**	4,039
Group total	**14,027**	12,848	**1,067**	853	**2,470**	2,138	**18,947**	16,892

5. Premiums, operating profit and margins from new business continued

*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.

The tables above include a bulk annuity transaction with the Scottish Amicable Insurance Fund (SAIF) with a premium of £560 million. The transaction reflects the arrangement entered into in June 2006 for the reinsurance of non-profit immediate pension annuity liabilities of SAIF to Prudential Retirement Income Limited (PRIL), a shareholder-owned subsidiary of the Group. SAIF is a closed ring-fenced sub-fund of the PAC long-term fund established by a Court approved Scheme of Arrangement in October 1997, which is solely for the benefit of SAIF policyholders. Shareholders have no interest in the profits of this fund, although they are entitled to investment management fees on this business. Accordingly, it is not part of covered business for EEV reporting purposes. The inclusion of the transaction betweeen SAIF and PRIL as new business, reflects the transfer from SAIF to Prudential shareholders' funds of longevity risk, the requirement to set aside supporting capital and the entitlement to surpluses arising on this block of business arising from the reinsurance arrangement.

Consistent with the transfer from uncovered to covered business and reflecting the transfers above, the transaction has been accounted for as new business for EEV basis reporting purposes.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis 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.

For previous periods the new business for intermediated distribution of UK insurance operations have included Department of Work and Pensions (DWP) rebate business for SAIF. These are excluded from the table above with comparatives restated accordingly. The amounts of new SAIF DWP rebate business written was £60 million in 2006 and £83 million in 2005.

(b) Profit

	2006			2005		
	Pre-tax £m	**Tax £m**	**Post-tax £m**	Pre-tax £m	Tax £m	Post-tax £m
UK insurance operations	**266**	**(80)**	**186**	243	(73)	170
Jackson (note i)	**259**	**(91)**	**168**	211	(74)	137
Asian operations	**514**	**(141)**	**373**	413	(124)	289
Total	**1,039**	**(312)**	**727**	867	(271)	596
(i) Jackson net of tax profit						
Before capital charge			**182**			150
Capital charge			**(14)**			(13)
After capital charge			**168**			137

In determining the EEV basis value of new business written in the year 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.

Included within pre-tax new business profits shown in the table above are profits arising from fund management business falling within the scope of covered business of:

	2006 £m	2005 £m
UK insurance operations	**9**	7
Jackson	**2**	2
Asian operations	**23**	10
	34	19

Notes on the EEV basis supplementary information continued

5. Premiums, operating profit and margins from new business continued

(c) Margins

2006	New business premiums Single £m	New business premiums Regular £m	Annual premium and contribution equivalent (APE) £m	Present value of new business premiums (PVNBP) £m	Pre-tax new business contribution £m	New business margin (APE) %	New business margin (PVNBP) %
UK insurance operations	**6,991**	**201**	**900**	**7,712**	**266**	**30**	**3.4**
Jackson	**5,964**	**17**	**614**	**6,103**	**259**	**42**	**4.2**
Asian operations	**1,072**	**849**	**956**	**5,132**	**514**	**54**	**10.0**
Total	**14,027**	**1,067**	**2,470**	**18,947**	**1,039**	**42**	**5.5**

2005	New business premiums Single £m	New business premiums Regular £m	Annual premium and contribution equivalent (APE) £m	Present value of new business premiums (PVNBP) £m	Pre-tax new business contribution £m	New business margin (APE) %	New business margin (PVNBP) %
UK insurance operations	7,002	191	892	7,718	243	27	3.1
Jackson	5,009	14	515	5,135	211	41	4.1
Asian operations	837	648	731	4,039	413	56	10.2
Total	12,848	853	2,138	16,892	867	41	5.1

	New business margin (APE) 2006 %	New business margin (APE) 2005 %
Asian operations:		
Hong Kong	**69**	60
Korea	**35**	37
Taiwan	**55**	51
India	**23**	29
China	**43**	51
Other	**72**	76
Total Asian operations	**54**	56

New business margins are shown on two bases, namely the margins by reference to the 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 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.

The table of new business premiums and margins above excludes SAIF DWP rebate premiums.

In determining the EEV basis value of new business written in the year 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.

New business contributions represent profits determined by applying the economic and non-economic assumptions applying at the end of the year.

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6. Operating profit from business in force

	2006 £m	2005 £m
UK insurance operations		
Unwind of discount and other expected returns (note i)	**530**	424
Cost of strengthened persistency assumption (note ii)	**–**	(148)
Mortality related cost of capital charge (note iii)	**–**	(47)
Other items (notes iv and vi)	**(110)**	(46)
	420	183
Jackson		
Unwind of discount and other expected returns: (note i)		
On value of in-force and required capital	**202**	160
On surplus assets	**49**	52
Spread experience variance	**118**	89
Amortisation of interest-related realised gains and losses	**45**	53
Profit on repricing Term contracts	**–**	140
(Loss) profit from changes to other operating assumptions	**(7)**	10
Other (vii)	**42**	26
	449	530
Asian operations		
Unwind of discount and other expected returns (note i)	**254**	162
Change in operating assumptions (viii (a))	**45**	(9)
Experience variances and other items (viii (b))	**16**	10
	315	163
Total	**1,184**	876

Notes

(i) For UK insurance and Asian operations, 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 year as adjusted for the effect of changes in economic and operating assumptions reflected in the current year. 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 represents the unwind of discount on the value of in-force business at the beginning of the year (adjusted for the effect of current year assumption changes), the expected return on smoothed surplus assets retained within the PAC with-profits sub-fund and the expected return on shareholders' assets held in other UK long-term business operations. Surplus assets retained within the PAC with-profits sub-fund are smoothed for this purpose to remove the effects of short-term investment volatility from operating results. In the balance sheet and for total profit reporting, asset values and investment returns are not smoothed. For Jackson the return on surplus assets is shown separately.

(ii) The £148 million cost of strengthened persistency assumption for 2005 applies to a number of products, primarily in respect of with-profits bonds.

(iii) The £47 million charge for 2005 primarily relates to the cost of capital attaching to liability strengthening on the regulatory basis for annuity business.

(iv) UK insurance operations other items represent:

	2006 £m	2005 £m
Cost associated with regulatory requirements including Sarbanes-Oxley, and product and distribution development	**(32)**	(45)
Adjustments to the policyholder and shareholder taxes for non-participating business of the PAC long-term fund, after grossing up for notional tax	**(26)**	0
Other items (note (v))	**(52)**	(1)
	(110)	(46)

(v) Included within other items of £(52) million (2005: £(1) million) is a charge of £14 million (2005: £12 million) in respect of annual licence fee payments and a charge of £16 million (2005: £16 million) for expense over-runs in respect of a tariff agreement with SAIF. The licence fee payments are made by shareholder-backed subsidiaries of UK insurance operations, via a service company, to the PAC with-profits sub-fund for the right to use trademarks and for the goodwill associated with the purchase of the business of the Scottish Amicable Life Assurance Society in 1997. The licence fee arrangements run to 2017. The charge in respect of SAIF, which is not covered business, is borne by a service company and arises from a tariff arrangement which is currently onerous to shareholders. The tariff arrangement will be replaced at the end of 2007.

Charges in respect of these items are reflected in the EEV and IFRS results on an annual basis.

The charge for 2006 for other items also includes a negative persistency experience variance of £9 million.

(vi) Expense assumptions
The 2005 EEV basis financial statements included note disclosure explaining that in determining the appropriate expense assumptions for 2005 account had been taken of the cost synergies that were expected to arise with some certainty from the initiative announced in December 2005 from UK insurance operations working more closely with Egg and M&G. Without this factor there would have been a charge for altered expense assumptions of approximately £55 million. The half year 2006 EEV basis results were prepared on the same basis.

The initiative was expected to provide annual savings to the cost base of UK operations in aggregate of £40 million. In addition, at the interim results stage, it was announced that an end to end review of the UK business, with the aim of reducing the overall cost base was underway. Total UK annual savings, including the £40 million mentioned above, were noted as being expected to be £150 million per annum comprising £100 million for Egg and shareholder-backed business of UK insurance operations and £50 million attaching to the with-profits sub-fund. The savings for the UK insurance operations cover both acquisition and renewal activity. Reflecting the underlying trend in unit costs, the interim results announcement noted that the element of the additional savings of £110 million that relate to long-term business was expected to be neutral in its effect on EEV basis results.

Notes on the EEV basis supplementary information continued

6. Operating profit from business in force continued

Notes continued
With the agreement to sell Egg Banking plc the actions necessary to implement these plans have been reassessed and additional initiatives put in place, as announced on 15 March 2007.

In preparing the 2006 EEV basis results for UK insurance operations, account has been taken of the expense savings that are expected to arise from these initiatives. Without this factor the effect on the 2006 results would have been an additional charge of £44 million for the net effect of revised assumptions in line with 2006 unit costs. The size of this change reflects the lagged effect of the implementation of the previously announced initiatives which have affected run-rate savings as at 31 December 2006 but not translated to the same extent in unit costs over 2006 as a whole.

(vii) Jackson
The principal component of the £42 million credit in 2006 for other profit is £31 million of favourable mortality experience variance.

(viii) Asian operations
(a) Changes in operating assumptions
The £45 million profit from changes in operating assumptions for Asian operations includes £24 million in respect of higher assumed investment management margins based on current experience, a further £24 million for the net effect of altered lapse rates across a number of territories and similarly a net £20 million for changes to mortality and morbidity assumptions offset by a charge of £23 million for other items.

(b) Experience variances and other items
Experience variances and other items of £16 million for 2006 comprise £35 million for favourable mortality variance and £18 million in respect of the investment return on capital held centrally in respect of Taiwan, offset by negative expense variances of £26 million in respect of China (£14 million) and India (£12 million) and £11 million of other charges. The negative expense variances are primarily a reflection of the expenses for new business being in excess of the target levels factored into the valuation of new business for these operations which are at a relatively early stage of development. On the basis of current plans, the target level for India is planned to be attained in 2009. In the case of China, the target level for existing operations is planned to be attained in 2011.

7. Investment return and other income

	2006 £m	2005 £m
IFRS basis	**58**	87
Less: allocation of investment return on centrally held capital in respect of Taiwan business to operating result of Asian operations	**(18)**	(21)
Less: projected fund management result in respect of covered business incorporated in opening EEV value of in-force business	**(32)**	(24)
EEV basis	**8**	42

8. UK restructuring costs

UK restructuring costs have been incurred as follows:

	2006 £m
UK insurance operations	**34**
M&G	**2**
Egg	**12**
Unallocated corporate	**5**
	53

The charge of £53 million comprises £50 million recognised on the IFRS basis and an additional £3 million recognised on the EEV basis for the shareholders' share of costs incurred by the PAC with-profits sub-fund. The costs relate to the initiative announced in December 2005 for UK insurance operations to work more closely with Egg and M&G.

9. Short-term fluctuations in investment returns

	2006 £m	2005 £m
Long-term business:		
UK insurance operations (note i)	**378**	994
Jackson (note ii)	**63**	67
Asian operations (note iii)	**286**	41
Share of investment return of funds managed by PPM America that are consolidated into Group results but attributable to external investors	**1**	0
Share of profits of venture investment companies and property partnerships of the PAC with-profits sub-fund that are consolidated into Group results but are attributable to external investors	**0**	1
Other operations	**17**	(35)
Total	**745**	1,068

Notes

(i) Short-term fluctuations in investment returns for UK insurance operations represent the difference between total investment returns in the year attributable to shareholders on the EEV basis and the longer-term return included within operating profit as described on schedule 4. The £378 million (2005: £994 million) reflects the PAC life fund investment return earned in the year of 12 per cent (2005: 20 per cent).

(ii) Short-term fluctuations for Jackson comprise:

	2006 £m	2005 £m
Actual investment return on investments less long-term returns included within operating profit:		
Actual realised gains less default assumption and amortisation of interest-related realised gains and losses for fixed maturity securities and related swap transactions	**20**	5
Actual less long-term return on equity-based investments and other items	**26**	58
Investment return related gain 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	**17**	4
	63	67

* This adjustment arises due to market returns being higher than the assumed long-term rate of return. This gives rise to higher than expected year end values of variable annuity assets under management with a resulting effect on the projected value of future account values, and hence future profitability.

(iii) Short-term fluctuations for Asian operations of £286 million in 2006 were due to strong market performance in most territories, in particular in Vietnam (£108 million) relating to increases in both bond and equity portfolios and in Hong Kong (£73 million) where an increase in the investment return on the equity portfolio more than offset the reductions in bond prices. Short-term fluctuations in Taiwan were £46 million and £41 million in Singapore.

10. Mark to market value movements on core borrowings

	2006 £m	2005 £m
Jackson	**3**	(2)
Other operations	**82**	(65)
	85	(67)

Core borrowings of the Group are marked to market value under EEV. As the liabilities are generally held to maturity or for the long term, no deferred tax asset has been established on the increase (compared to IFRS) in carrying value. Accordingly, no deferred tax charge (credit) is recorded in the results against the 2006 credit of £85 million (2005: charge of £67 million).

11. Actuarial and other gains and losses on defined benefit pension schemes

The gain of £207 million (2005: charge £47 million) included in total profit reflects the shareholders' share of actuarial and other gains and losses on the Group's defined benefit pension schemes. On the EEV basis, this gain (charge) includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits sub-fund for the Prudential Staff and Scottish Amicable Pension Schemes. The very high level of shareholders' actuarial gains in 2006 reflects the excess of market returns over the long-term assumption and the increase in discount rate applied in determining the present value of projected pension payment from 4.8 per cent at 31 December 2005 to 5.2 per cent at 31 December 2006. The 2005 full year charge of £47 million included a charge of £43 million for altered renewal expense assumptions arising from the prospective increase in employer contributions for the Prudential Staff Pension Scheme for future service of active members (as distinct from deficit funding).

Notes on the EEV basis supplementary information continued

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

The profits (losses) 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 the profit from continuing operations before tax (including actual investment returns) arise as follows:

	2006			2005		
	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
UK insurance operations (note i)	**182**	**40**	**222**	(81)	31	(50)
Jackson (note ii)	**(51)**	**6**	**(45)**	(3)	11	8
Asian operations (note iii)	**(132)**	**14**	**(118)**	(265)	5	(260)
Total	**(1)**	**60**	**59**	(349)	47	(302)

Notes

(i) The effect of changes in economic assumptions for UK insurance operations reflects primarily movements in gilt rates of return which affect assumed rates of return and discount rates, as described in note 3.

(ii) The charge of £51 million for Jackson in 2006 arises from the change in risk discount rate, partially offset by the positive effect of increased assumed future rate of return for separate account variable annuity business. Both changes reflect the 0.4 per cent increase in the 10 year treasury bond rate.

(iii) The £132 million charge for 2006 for Asian operations for the effects of changes in economic assumptions mainly relates to Taiwan where there is a charge of £101 million arising from the delay in the assumed long-term yield projection, as described in note 3(ii) and the associated effect of this delay on the economic capital requirement. The principal cause of the Asia charges in 2005 of £265 million was for the reduction in short-term earned rates in Taiwan in 2005. This reduction had the effect of delaying the emergence of the expected long-term rate, and the associated effect of this delay on the economic capital requirement.

13. Taxation charge

The tax charge comprises:

	2006 £m	2005 £m
Tax on operating profit from continuing operations		
Long-term business (note i):		
UK insurance operations (note ii and iii)	**178**	127
Jackson (note iv)	**251**	204
Asian operations (note ii)	**222**	162
	651	493
Other operations	**(64)**	(130)
Total tax charge on operating profit from continuing operations	**587**	363
Tax on items not included in operating profit		
Tax charge on short-term fluctuations in investment returns	**214**	343
Tax charge (credit) on actuarial and other gains and losses on defined benefit pension schemes	**62**	(14)
Tax credit on effect of changes in economic assumptions and time value of cost of options and guarantees (note v)	**(4)**	(39)
Total tax charge on items not included in operating profit from continuing operations	**272**	290
Tax charge on profit on ordinary activities from continuing operations (including tax on actual investment returns)	**859**	653

Notes

(i) The profit for the year for covered business is in most cases calculated initially at the post-tax level. The post-tax profit for covered business is then grossed up for presentation purposes at the effective rates of tax applicable to the countries and periods concerned. In the UK, this is the UK corporation tax rate of 30 per cent. For Jackson, the US federal rate of 35 per cent is applied to gross up movements on the value of in-force business. Effects on statutory tax for the period affect the overall tax rate. For Asia, similar principles apply subject to the availability of taxable profits.

(ii) Including tax relief on UK restructuring costs borne by UK insurance operations and Asia development expenses.

(iii) The tax charge for UK insurance operations of £178 million includes a credit of £19 million in respect of a prior year tax adjustment for shareholder-backed business.

(iv) The tax charge for Jackson of £251 million includes a charge in respect of prior years of £29 million and a charge of £26 million in respect of a change in valuation of deferred tax under EEV to reflect discounting over a period of four to 11 years depending upon the type of business concerned. These adjustments also have resulted in a reallocation from free surplus to the value of in-force business of £44 million.

(v) The tax credit for 2006 on the effect of changes in economic assumptions includes a credit of £9 million in respect of a change in the tax rate for Malaysia.

14. Earnings per share (EPS)

	2006 £m	2005 £m
Operating EPS from continuing operations:		
Operating profit before tax	**1,976**	1,712
Tax	**(587)**	(363)
Minority interests	**1**	(10)
Operating profit after tax and minority interests from continuing operations	**1,390**	1,339
Operating EPS from continuing operations	**57.6p**	56.6p
Total EPS from continuing operations:		
Total profit before tax	**3,072**	2,244
Tax	**(859)**	(653)
Minority interests	**(1)**	(12)
Total profit after tax and minority interests from continuing operations	**2,212**	1,579
Total EPS from continuing operations	**91.7p**	66.8p
Average number of shares (millions)	**2,413**	2,365

The average number of shares reflects the average number in issue adjusted for shares held by employee trusts and consolidated unit trusts and OEICs which are treated as cancelled.

15. Shareholders' funds – segmental analysis

	2006 £m	2005 £m
UK operations		
Long-term business operations (notes i and ii):		
Smoothed shareholders' funds (note iii)	**5,155**	4,558
Actual shareholders' funds less smoothed shareholders' funds	**658**	574
EEV basis shareholders' funds	**5,813**	5,132
M&G (note vii):		
Net assets of operations	**230**	245
Acquired goodwill (note v)	**1,153**	1,153
Egg (note vii)	**292**	303
	7,488	6,833
US operations		
Jackson (net of surplus note borrowings of £158m (2005: £183m) note vi):		
Shareholders' funds before capital charge	**3,420**	3,465
Capital charge (note iv)	**(117)**	(117)
EEV basis shareholders' funds	**3,303**	3,348
Broker-dealer, fund management and Curian operations (note vii)	**57**	70
	3,360	3,418
Asian operations		
Long-term business (note i):		
Net assets of operations – EEV basis shareholders' funds	**2,548**	1,988
Acquired goodwill (note v)	**111**	111
Fund management (note vii):		
Net assets of operations	**89**	82
Acquired goodwill (note v)	**61**	61
	2,809	2,242
Other operations		
Holding company net borrowings (note vi)	**(1,542)**	(1,724)
Other net liabilities (note vii)	**(232)**	(468)
	(1,774)	(2,192)
Total	**11,883**	10,301

Notes on the EEV basis supplementary information continued

15. Shareholders' funds – segmental analysis continued

Notes

(i) A charge is deducted from the annual result and embedded value for the cost of capital supporting the Group's long-term business operations. This capital is referred to as encumbered capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (net of tax) on the capital. Where encumbered capital is held within a with-profits sub-fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of encumbered capital.

(ii) The proportion of surplus allocated to shareholders from the UK with-profits business has been based on the present level of 10 per cent. Future bonus rates have been set at levels which would fully utilise the assets of the with-profits fund over the lifetime of the business in force.

(iii) UK long-term business smoothed shareholders' funds reflect an adjustment to the assets of the PAC with-profits sub-fund, for the purposes of determining the unwind of discount included in operating profits, to remove the short-term volatility in market values of assets. Shareholders' funds in the balance sheet are determined on an unsmoothed basis.

(iv) In determining the cost of capital of Jackson, it has been assumed that an amount equal to 235 per cent of the risk-based capital required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level must be retained. The impact of the related capital charge is to reduce Jackson's shareholders' funds by £117 million (2005: £117 million).

(v) Under IFRS, subject to impairment testing, goodwill is no longer amortised. Acquired goodwill of the Japanese life business was subject to an impairment charge of £120 million which was included in the 2005 results.

Goodwill attaching to venture fund investment subsidiaries of the PAC with-profits fund that are consolidated under IFRS are not included in the table above as the goodwill attaching to these companies is not relevant to the analysis of shareholders' funds.

(vi) Net core structural borrowings of shareholder-financed operations comprise:

	2006 £m	2005 £m
Holding company cash and short-term investments	**1,119**	1,128
Core structural borrowings – central funds*	**(2,661)**	(2,852)
Holding company net borrowings	**(1,542)**	(1,724)
Core structural borrowings – Jackson	**(158)**	(183)
	(1,700)	(1,907)

*The altered carrying value of core structural borrowings under EEV compared to those under IFRS reflects the application of market values rather than cost.

(vii) With the exception of the share of pension scheme surpluses (deficits) attributable to the PAC with-profits sub-fund which are included in other operations' net liabilities, and the borrowings as described in note vi, the amounts shown for the items in the table above that are referenced to this note have been determined on the statutory IFRS basis. The pension scheme surplus (deficit) net of tax attributable to shareholders relating to the Prudential Staff Pension and Scottish Amicable Pension Schemes are determined as shown below:

	2006 £m	2005 £m
IFRS basis (re shareholder-backed operations)	**19**	(113)
Additional amounts recognised under EEV (re shareholders' 10% share of the surplus (deficit) attributable to the PAC with-profits sub-fund)	**6**	(29)
EEV basis	**25**	(142)

16. Reconciliation of movement in shareholders' funds

	Long-term business operations					
	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term business operations £m	Other operations £m	Group total £m
Operating profit (including investment return based on long-term rates of returns)						
Long-term business:						
New business (note 5)	266	259	514	1,039		1,039
Business in force (note 6)	420	449	315	1,184		1,184
	686	708	829	2,223		2,223
Asia development expenses			(14)	(14)	(1)	(15)
M&G					204	204
Egg					(145)	(145)
Asian fund management operations					50	50
US broker-dealer and fund management					18	18
Curian					(8)	(8)
Other income and expenditure					(298)	(298)
UK restructuring costs (note 8)	(34)			(34)	(19)	(53)
Total operating profit (loss) based on longer-term investment returns	652	708	815	2,175	(199)	1,976
Short-term fluctuations in investment returns (note 9)	378	63	286	727	18	745
Mark to market value movements on core borrowings (note 10)		3		3	82	85
Actuarial gains and losses on defined benefit pension schemes (note 11)					207	207
Effect of changes in economic assumptions and time value of cost of options and guarantees (note 12)	222	(45)	(118)	59		59
Profit on ordinary activities before tax (including actual investment returns)	1,252	729	983	2,964	108	3,072
Tax on profits (losses) from continuing operations (note 13):						
Tax on operating profit	(178)	(251)	(222)	(651)	64	(587)
Tax on short-term fluctuations in investment returns	(113)	(21)	(75)	(209)	(5)	(214)
Tax on actuarial and other gains and losses on defined benefit pension schemes					(62)	(62)
Tax on effect of changes in economic assumptions and time value of cost of options and guarantees	(67)	16	55	4		4
Total tax (charge) credit	(358)	(256)	(242)	(856)	(3)	(859)
Minority interests					(1)	(1)
Profit for the financial year	894	473	741	2,108	104	2,212
Unrealised valuation movements on Egg securities classified as available-for-sale					(2)	(2)
Movement in cash flow hedges					7	7
Exchange movements (note i)		(432)	(169)	(601)	242	(359)
Related tax					(74)	(74)
Intra group dividends (including statutory transfer)	(271)	(113)	(90)	(474)	474	
External dividends					(399)	(399)
Reserve movements in respect of share-based payments					15	15
Investment in operations (note ii)	127	10	95	232	(232)	
Other transfers (note iv)	(69)	10	(17)	(76)	76	
Movement in own shares in respect of share-based payment plans					6	6
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS					0	0
Acquisition of Egg minority interests					(167)	(167)
Issues of share capital by parent company					336	336
Cumulative adjustment at 31 December 2006, net of related tax, for Jackson assets backing surplus and required capital (note vi)		7		7		7
Net increase (decrease) in shareholders' capital and reserves	681	(45)	560	1,196	386	1,582
Shareholders' capital and reserves at 1 January 2006	5,132	3,348	1,988	10,468	(167)	10,301
Shareholders' capital and reserves at 31 December 2006 (notes (iii) and 15)	5,813	3,303	2,548	11,664	219	11,883

Notes on the EEV basis supplementary information continued

16. Reconciliation of movement in shareholders' funds continued

Notes

(i) Profits are translated at average exchange rates, consistent with the method applied for statutory IFRS basis results. The amounts recorded above for exchange rate movements reflect the difference between 2005 and 2006 exchange rates as applied to shareholders' funds at 1 January 2006 and the difference between 31 December 2006 and average 2006 rates for profits.

(ii) Investment in operations reflects increases in share capital. This includes certain non-cash items as a result of timing differences.

(iii) For the purposes of the table above, goodwill related to Asia long-term operations (as shown in note 15) is included in 'Other operations'.

(iv) Other transfers (from) to long-term business operations to other operations represents:

	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term business operations £m
Adjustments for net of tax fund management projected profit of covered business	**(15)**	**(2)**	**(5)**	**(22)**
Adjustment for investment return, net of related tax, on economic capital for Taiwan operations held centrally			**(13)**	**(13)**
Other adjustments (note v)	**(54)**	**12**	**1**	**(41)**
	(69)	**10**	**(17)**	**(76)**

(v) The other adjustment for UK insurance operations is merely technical in nature and is a reallocation of shareholders' funds from net worth to central funds to more closely align the corporate and business unit structure for EEV reporting purposes. The Jackson other adjustment of £12 million is mainly for a tax related benefit arising from the US basis of filing.

(vi) Previously the valuation placed on the assets backing Jackson's surplus and required capital reflected the fact that generally they are held for the longer-term and excluded the short-term differences between market value and amortised cost. For the balance sheet at 31 December 2006 and prospectively these short-term value adjustments are now incorporated. At 31 December 2006, the balance sheet adjustment, net of related tax is an increase of £7 million. For 31 December 2005, the adjustment, if it had been booked at that date, was an increase of £19 million. Future movements for this item, consistent with the basis applied under IFRS for available-for-sale securities, will be booked in the statement of movement in shareholders' capital and reserves.

EEV basis shareholders' funds at 31 December 2006	Long-term business operations					
	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term business operations £m	Other operations £m	Group total £m
Analysed as:						
Statutory IFRS basis shareholders' funds	**1,263**	**2,656**	**1,176**	**5,095**	**393**	**5,488**
Additional retained profit on an EEV basis	**4,550**	**647**	**1,372**	**6,569**	**(174)**	**6,395**
EEV basis shareholders' funds at 31 December 2006	**5,813**	**3,303**	**2,548**	**11,664**	**219**	**11,883**
Comprising:						
Free surplus	**147**	**910**	**(42)**	**1,015**		
Required capital	**831**	**1,073**	**962**	**2,866**		
Value of in-force business before deduction of cost of capital and of guarantees	**5,129**	**1,578**	**2,156**	**8,863**		
Cost of capital	**(254)**	**(117)**	**(521)**	**(892)**		
Cost of time value of guarantees	**(40)**	**(141)**	**(7)**	**(188)**		
	5,813	**3,303**	**2,548**	**11,664**		

EEV basis shareholders' funds at 1 January 2006	Long-term business operations					
	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term business operations £m	Other operations £m	Group total £m
Analysed as:						
Statutory IFRS basis shareholders' funds	1,141	2,899	1,034	5,074	120	5,194
Additional retained profit on an EEV basis	3,991	449	954	5,394	(287)	5,107
EEV basis shareholders' funds at 1 January 2006	5,132	3,348	1,988	10,468	(167)	10,301
Comprising:						
Free surplus	148	899	(212)	835		
Required capital	710	1,198	974	2,882		
Value of in-force business before deduction of cost of capital and of guarantees	4,529	1,511	1,771	7,811		
Cost of capital	(192)	(117)	(539)	(848)		
Cost of time value of guarantees	(63)	(143)	(6)	(212)		
	5,132	3,348	1,988	10,468		

17. Reconciliation of net worth and value of in-force business

Reconciliation of net worth and value of in-force business for 2006 (note i)	Free surplus £m	Required capital £m	Total net worth (note iv) £m	Value of in-force business (note vi) £m	Total long-term business £m
Shareholders' capital and reserves at 1 January 2006 (note vii)	**835**	**2,882**	**3,717**	**6,751**	**10,468**
New business contribution (notes ii, iii)	**(554)**	**383**	**(171)**	**898**	**727**
Expected return on existing business	**41**	**91**	**132**	**641**	**773**
Existing business – transfer to net worth (note v)	**943**	**(290)**	**653**	**(653)**	**0**
Changes of operating assumptions and experience variances (note viii)	**(29)**	**20**	**(9)**	**31**	**22**
Changes of non-operating assumptions and experience variances and minority interests	**44**	**48**	**92**	**494**	**586**
Profit after tax from continuing operations	**445**	**252**	**697**	**1,411**	**2,108**
Exchange rate movements	**(69)**	**(268)**	**(337)**	**(264)**	**(601)**
Intra group dividends (including statutory transfer) and investment in operations	**(127)**	**–**	**(127)**	**(115)**	**(242)**
Cumulative adjustment at 31 December 2006, net of related tax, for Jackson assets backing surplus and required capital	**7**	**–**	**7**	**–**	**7**
Other transfers from net worth (note ix)	**(76)**	**–**	**(76)**	**–**	**(76)**
Shareholders' capital and reserves at 31 December 2006 (note vii)	**1,015**	**2,866**	**3,881**	**7,783**	**11,664**

Notes

(i) All figures are shown net of tax.

(ii) The movements arising from new business contribution are as follows:

	2006 (note iii) £m	2005 £m
Free surplus	**(554)**	(562)
Required capital	**383**	409
Total net worth	**(171)**	(153)
Value of in-force	**898**	749
Total long-term business	**727**	596

(iii) The new business contribution arises as follows:

	Free surplus £m	Required capital £m	Total net worth (note i) £m	Value of in-force business (note ii) £m	Total long-term business £m
UK insurance operations	(221)	176	(45)	231	186
Jackson	(228)	196	(32)	200	168
Asian operations	(105)	11	(94)	467	373
	(554)	383	(171)	898	727

(iv) Net worth consists of statutory solvency capital (or economic capital where higher) and unencumbered capital.

(v) Existing business transfer to net worth

	Free surplus £m	Required capital £m	Total net worth (note i) £m	Value of in-force business (note ii) £m	Total long-term business £m
UK insurance operations	408	(39)	369	(369)	0
Jackson	326	(210)	116	(116)	0
Asian operations	209	(41)	168	(168)	0
	943	(290)	653	(653)	0

(vi) Value of in-force business includes the value of future margins from current in-force business less the cost of holding encumbered capital.

(vii) Included in the EEV basis shareholders' funds of long-term business operations of £11,664 million (2005: £10,468 million) is £257 million (2005: £174 million) in respect of fund management business falling within the scope of covered business as follows:

	2006 £m	2005 £m
UK insurance operations	**125**	120
Jackson	**12**	12
Asian operations	**120**	42
	257	174

(viii) Included within the change of operating assumptions and experience variances is a reallocation from free surplus to the value of in-force business of £44 million in respect of the Jackson tax adjustments as detailed in note 13(iv). In addition, for other long-term operations, a reallocation from free surplus of £58 million to required capital of £26 million and the value of in-force business of £32 million has been made in respect of non-recurring adjustments.

(ix) Other transfers from net worth

	2006 £m
Adjustment for net of tax fund management projected profits of covered business	**(22)**
Adjustment for investment return net of related tax on economic capital for Taiwan operations held centrally	**(13)**
Other adjustments	**(41)**
	(76)

Notes on the EEV basis supplementary information continued

18. Sensitivity of results to alternative assumptions

(a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2006 (2005) and the new business contribution after the effect of encumbered capital for 2006 and 2005 to:

- one per cent increase in the discount rates;
- one per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- one per cent rise in equity and property yields;
- ten per cent fall in market value of equity and property assets (not applicable for new business contribution); and
- holding company statutory minimum capital (by contrast to economic capital).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

2006	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term £m
New business profit for 2006				
As reported (note 5)	**266**	**259**	**514**	**1,039**
Discount rates – 1% increase	**(46)**	**(28)**	**(56)**	**(130)**
Interest rates – 1% increase	**4**	**3**	**(9)**	**(2)**
Interest rates – 1% decrease	**(11)**	**(17)**	**7**	**(21)**
Equity/property yields – 1% rise	**16**	**28**	**23**	**67**
Embedded value of long-term operations at 31 December 2006				
As reported (note 16)	**5,813**	**3,303**	**2,548**	**11,664**
Discount rates – 1% increase	**(480)**	**(127)**	**(271)**	**(878)**
Interest rates – 1% increase (notes i, ii)	**55**	**(190)**	**42**	**(93)**
Interest rates – 1% decrease (notes i, ii)	**(70)**	**116**	**(115)**	**(69)**
Equity/property yields – 1% rise	**382**	**46**	**154**	**582**
Equity/property market values – 10% fall	**(502)**	**(58)**	**(99)**	**(659)**
Statutory minimum capital	**8**	**82**	**391**	**481**

18. Sensitivity of results to alternative assumptions continued

2005	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term £m
New business profit for 2005				
As reported (note 5)	243	211	413	867
Discount rates – 1% increase	(49)	(27)	(46)	(122)
Interest rates – 1% increase	(4)	2	(6)	(8)
Interest rates – 1% decrease	(5)	(26)	3	(28)
Equity/property yields – 1% rise	13	24	20	57
Embedded value of long-term operations at 31 December 2005				
As reported (note 16)	5,132	3,348	1,988	10,468
Discount rates – 1% increase	(432)	(133)	(236)	(801)
Interest rates – 1% increase (notes i, iii)	69	(144)	49	(26)
Interest rates – 1% decrease (notes i, iii)	(99)	55	(126)	(170)
Equity/property yields – 1% rise	297	42	136	475
Equity/property market values – 10% fall (note iii)	(480)	(55)	(75)	(610)
Statutory minimum capital	0	79	431	510

Notes

(i) Asian operations

		Interest rates		% of embedded value	
2006	**Embedded value of long-term operations £m**	**1% increase £m**	**1% decrease £m**	**1% increase %**	**1% decrease %**
Asian operations					
Established markets	**2,039**	**(55)**	**45**	**(3)**	**2**
Taiwan*	**(216)**	**107**	**(165)**	**50**	**(76)**
Korea	**191**	**(5)**	**5**	**(3)**	**3**
Vietnam	**198**	**(1)**	**1**	**(1)**	**1**
Other	**336**	**(4)**	**(1)**	**(1)**	**0**
	2,548	**42**	**(115)**	**2**	**(5)**

* Taiwan sensitivity to starting bond rates (i.e. the starting bond rate for the progression to the assumed long-term rate):

	Embedded value at 31 Dec 2006 £m	1% increase in the starting bond rates £m	1% decrease in the starting bond rates £m
Taiwan	**(216)**	**116**	**(125)**

For Taiwan:
(a) If a delay of a further year to 31 December 2014 for the start and end of the progression period had been assumed in preparing the 2006 results, there would have been an additional charge of £(88) million.

		Interest rates		% of embedded value	
2005	Embedded value of long-term operations £m	1% increase £m	1% decrease £m	1% increase %	1% decrease %
Asian operations					
Established markets	1,844	(57)	49	(3)	3
Taiwan*	(311)	106	(174)	34	(56)
Korea	136	(3)	3	(2)	2
Vietnam	127	3	(2)	2	(2)
Other	192	0	(2)	0	(1)
	1,988	49	(126)	2	(6)

* Taiwan sensitivity to starting bond rates (i.e. the starting bond rate for the progression to the assumed long-term rate):

	Embedded value at 31 Dec 2005 £m	1% increase in the starting bond rates £m	1% decrease in the starting bond rates £m
Taiwan	(311)	104	(108)

(ii) Jackson sensitivities for 2006 to one per cent movements in interest rates include the effect on net worth as detailed in note 16 (vi).

(iii) 2005 comparatives have been adjusted to reflect refinements to the methodology in UK insurance operations, for the effect of interest rate movements, and in Jackson, for the effect of equity falls where the impact of associated hedging activity on variable annuity business is now included.

Notes on the EEV basis supplementary information continued

18. Sensitivity of results to alternative assumptions continued

(b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2006 (2005) and the new business contribution after the effect of required capital for 2006 and 2005 to:

- ten per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base expense assumption of £10 per annum would represent an expense assumption of £9 per annum);
- ten per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of five per cent would represent a lapse rate of 4.5 per cent per annum); and
- five per cent proportionate decrease in base mortality and morbidity rates (i.e. increased longevity).

2006	**UK insurance operations £m**	**Jackson £m**	**Asian operations £m**	**Total long-term £m**
New business profit for 2006				
As reported (note 5)	**266**	**259**	**514**	**1,039**
Maintenance expenses – 10% decrease	**10**	**6**	**13**	**29**
Lapse rates – 10% decrease	**8**	**21**	**42**	**71**
Mortality and morbidity – 5% decrease	**(27)**	**6**	**14**	**(7)**
Change representing effect on:				
Life business	**1**	**6**	**14**	**21**
Annuity business	**(28)**	**0**	**0**	**(28)**
Embedded value of long-term operations for 2006				
As reported (note 16)	**5,813**	**3,303**	**2,548**	**11,664**
Maintenance expenses – 10% decrease	**33**	**32**	**45**	**110**
Lapse rates – 10% decrease	**75**	**110**	**93**	**278**
Mortality and morbidity – 5% decrease	**(87)**	**75**	**77**	**65**
Change representing effect on:				
Life business	**7**	**75**	**77**	**159**
Annuity business	**(94)**	**0**	**0**	**(94)**

2005	UK insurance operations £m	Jackson £m	Asian operations £m	Total long-term £m
New business profit for 2005				
As reported (note 5)	243	211	413	867
Maintenance expenses – 10% decrease	8	5	10	23
Lapse rates – 10% decrease	7	18	39	64
Mortality and morbidity – 5% decrease	(39)	5	13	(21)
Change representing effect on:				
Life business	1	5	13	19
Annuity business	(40)	0	0	(40)
Embedded value of long-term operations for 2005				
As reported (note 16)	5,132	3,348	1,988	10,468
Maintenance expenses – 10% decrease	33	36	45	114
Lapse rates – 10% decrease	68	90	87	245
Mortality and morbidity – 5% decrease	(62)	90	69	97
Change representing effect on:				
Life business	9	90	69	168
Annuity business	(71)	0	0	(71)