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 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 basis, 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.

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 (free surplus).

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

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

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.

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' funds 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 equity rather than in the income statement, as shown in the movement in shareholders' equity.

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, persistency 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.

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

Asian operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally 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. On 20 February 2009, the Company announced that it had agreed to transfer the agency business of the Taiwan Life business to China Life, as detailed in note 21.

US operations (Jackson)

The principal options and guarantees in Jackson are associated with the fixed annuity and Variable Annuity (VA) 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 (2007: 1.5 per cent to 5.5 per cent), depending on the particular product, jurisdiction where issued, and date of issue. At 31 December 2008, 83 per cent (2007: 80 per cent) of the fund relates to policies with guarantees of three per cent or less. The average guarantee rate is 3.0 per cent (2007: 3.1 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.

Jackson issues VA contracts where it contractually guarantees to the contract holder either a) return of no less than total deposits made to the contract adjusted for any partial withdrawals, b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return, or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the contract anniversary. These guarantees include benefits that are payable in the event of death (guaranteed minimum death benefit (GMDB)), annuitisation (guaranteed minimum income benefit (GMIB)), or at specified dates during the accumulation period (guaranteed minimum withdrawal benefit (GMWB) and guaranteed minimum accumulation benefit (GMAB)). Jackson hedges these risks using equity options and futures contracts.

2 Methodology continued

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.

UK insurance operations

The only significant financial options and guarantees in the UK insurance operations arise in the with-profits 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 fund held a provision on the Pillar I Peak 2 basis of £42 million (2007: £45 million) at 31 December 2008 to honour guarantees on a small amount of guaranteed annuity option products.

Beyond the generic features and the provisions held in respect of guaranteed annuities described above, there are very few explicit options or guarantees of the with-profits 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 I Peak 2 basis of £391 million (2007: £563 million) was held in SAIF at 31 December 2008 to honour the guarantees.

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 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 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 broadly equivalent to 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; and
- UK insurance operations: 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. For unit-linked and other shareholder-backed business the encumbered capital held reflects the statutory minimum Pillar I requirement, as required by the UK regulatory authorities.

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 market 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 252 basis points (2007: 84 basis points) for fixed annuities and 120 basis points (2007: 24 basis points) for inflation-linked annuities. The 252 basis points and 120 basis points for 2008 were based on our assessment of the liquidity premium available in the yield on the assets backing the annuity liabilities.

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.

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.

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.

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.

Except for UK shareholder-backed annuity business, a constant margin of 50 basis points (2007: 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, a margin of 100 basis points was used (2007: 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 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 fund, the shareholders' interest in the estate is derived by increasing final 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.

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 that effectively apply the principles of IFRIC 14, which was adopted in 2008 providing guidance on assessing the limit in IAS 19 on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset.

For PSPS the surplus or deficit at the reporting date is allocated between the PAC with-profits fund and shareholder-backed operations by reference to the activities of the members of the scheme during their period of service. At 31 December 2005, the deficit of PSPS was apportioned in the ratio 70/30 between the with-profits fund and shareholder-backed operations following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 for the purposes of determining the allocation of the movement in that position up to 31 December 2008.

Under the EEV basis the IAS 19 basis surpluses (to the extent not restricted under IFRIC 14) or deficits are initially allocated in the same manner. The shareholders' 10 per cent interest in the PAC with-profits fund estate is determined after inclusion of the portion of the IAS 19 basis surpluses or deficits 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 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 businesses 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 (2007: 3.0 per cent to 6.0 per cent). In the US and the UK, the equity risk premium is 4.0 per cent above risk-free rates for both 2008 and 2007.

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	31 Dec 2008 % China	Hong Kong notes iii,iv,v	India	Indonesia	Japan	Korea	31 Dec 2007 % China	Hong Kong notes iii,iv,v	India	Indonesia	Japan	Korea
Risk discount rate:												
New business	11.75	3.8	14.25	15.25	4.8	8.2	11.75	5.7	15.75	16.75	5.1	9.7
In force	11.75	3.9	14.25	15.25	4.8	8.2	11.75	6.0	15.75	16.75	5.1	9.7
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.7	2.75	4.0	2.25	5.0	6.0	0.0	2.75
Government bond yield	8.25	2.3	9.25	10.25	1.6	4.3	8.25	4.1	9.25	10.25	2.0	5.8

Asian operations	31 Dec 2008 % Malaysia notes iv,v	Philippines	Singapore notes iv,v	Taiwan notes ii,v	Thailand	Vietnam	31 Dec 2007 % Malaysia notes iv,v	Philippines	Singapore notes iv,v	Taiwan notes ii,v	Thailand	Vietnam
Risk discount rate:												
New business	9.1	15.75	6.15	9.1	13.0	16.75	9.3	15.75	6.4	9.1	13.0	16.75
In force	9.0	15.75	6.85	9.7	13.0	16.75	9.1	15.75	6.8	9.8	13.0	16.75
Expected long-term rate of inflation	2.75	5.0	1.75	2.25	3.0	6.0	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	6.5	9.25	4.25	5.5	6.75	10.25	6.5	9.25	4.25	5.5	6.75	10.25

	31 Dec 2008 % Asia total	31 Dec 2007 % Asia total
Weighted risk discount rate: note i		
New business	8.8	9.5
In force	7.8	8.7

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 For traditional business in Taiwan, the economic scenarios used to calculate the 2008 and 2007 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.

For 2008 the projections assume that in the average scenario, the current bond yields at 31 December 2008 of 1.4 per cent trend towards 5.5 per cent at 31 December 2018. This compares to the 2007 results for which the projections assume that in the average scenario, the current bond yields at 31 December 2007 of around 2.5 per cent trend towards 5.5 per cent at 31 December 2013.

The expected long-term rate is a function of expectation of inflation and real rates of interest, on which the Company has taken external expert advice. It is considered that the outlook for long-term interest rates in Asia will be strongly influenced by the trend in the projection of comparable US long-term real interest rates. Consequently, assessment of the expected rates for Taiwan has taken into account the structural factors of government borrowing, savings rates, short-term interest rates, government intervention and non-market influences that could affect Taiwanese real interest rates over the projection period. Together with a central inflation projection for Taiwan, the Company considers that the long-term rate of 5.5 per cent is appropriate in the longer-term.

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 changes from 6.6 per cent for 2008 to 6.7 per cent for 2019. The assumed Fund Earned Rate falls to 3.35 per cent in 2009 and subsequently to 1.2 per cent in 2010, then increases to 5.15 per cent by 2018. Thereafter, the assumed Fund Earned Rate fluctuates around a target of 6.7 per cent. This projection compares with that applied for the 2007 results of a grading from an assumed rate of 0.5 per cent for 2007 to 6.4 per cent for 2014.

Consistent with the EEV methodology applied, a constant discount rate has been applied to the projected cash flows.

On 20 February 2009, the Company announced that it had agreed to transfer the agency business of the Taiwan Life business to China Life. Further details are given in note 21.

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

iv The mean equity return assumptions for the most significant equity holdings in the Asian operations were:

	31 Dec 2008 %	31 Dec 2007 %
Hong Kong	6.2	8.1
Malaysia	12.5	12.5
Singapore	10.2	9.3

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 2008 and 2007, cash rates rather than government bond yields were used in setting the risk discount rates for Malaysia, Singapore, Taiwan and for Hong Kong dollar denominated business.

3 Assumptions continued

US operations (Jackson)note ii	31 Dec 2008 %	31 Dec 2007 %
Risk discount rate:note i		
New business	4.6	7.0
In force	3.9	6.0
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	2.3	4.1
Pre-tax expected long-term nominal rate of return for US equities	6.3	8.1
Expected long-term rate of inflation	1.5	2.4

Notes

i The risk discount rates at 31 December 2008 for new business and business in-force for US operations reflect weighted rates based on underlying rates of 6.2 per cent for variable annuity (VA) business and 3.0 per cent for other business. The decrease in the weighted discount rates reflects the decrease in the US 10-year treasury bond rate of 180 bps and a change in the product mix with the 2008 results seeing an increase in the proportion of new and in-force business arising from other than VA business.

ii 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 incorporates a Risk Margin Reserve (RMR) allowance of 25 basis points for longer-term defaults as described in note 4b.

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 low 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.

The book value yields, net of RMR allowance, are in excess of the risk discount rate. To correct for the anomalous effect that would otherwise occur no credit has been taken for the cost of capital benefit that this feature would give rise to for fixed annuity business.

UK insurance operationsnote iv	31 Dec 2008 %	31 Dec 2007 %
Shareholder-backed annuity business:		
Risk discount rate:note i		
New business	9.6	7.8
In force	12.0	7.8
Pre-tax expected long-term nominal rate of return for shareholder-backed annuity business:note iii		
Fixed annuities	6.4 to 6.7	5.4 to 5.6
Inflation-linked annuities	5.7 to 5.8	5.0 to 5.2
Other business:		
Risk discount rate:notes ii, iv		
New business	6.7	7.0
In force	6.75	7.9
Pre-tax expected long-term nominal rates of investment return:		
UK equities	7.7	8.55
Overseas equities	6.3 to 10.25	8.1 to 10.2
Property	6.0	6.8
Gilts	3.7	4.55
Corporate bonds – with-profits fundsnote v	5.2	6.0
– other business	5.2	6.25
Expected long-term rate of inflation	3.0	3.2
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:		
Pension business (where no tax applies)	6.6	7.85
Life business	5.8	6.9

Notes

i The new business risk discount rate for shareholder-backed annuity business for 2008 reflects 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 allowance for credit risk for new business at point of sale is determined using the same methodology for in-force business described in note (iv) below.

ii The risk discount rates 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 widening of credit spreads observed in 2008 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 is derived from the yield on the assets held after deducting an appropriate allowance for credit risk. For Prudential Retirement Income Limited (PRIL), which has approximately 90 per cent of UK shareholder-backed annuity business, the allowance for credit risk at 31 December 2008 is made up of:

a 16 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 onwards uplifted by between 100 per cent (B) and 200 per cent (AAA) according to credit rating, to the asset portfolios.

b 11 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 onwards, to the asset portfolios.

c 56 bps for fixed annuities and 48 bps for inflation-linked annuities in respect of additional short-term credit risk, reflecting the extreme market conditions at 31 December 2008; this is 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.

On a weighted basis for fixed annuities and inflation-linked annuities the allowance is 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. For EEV reporting the allowance for short-term credit risk is assumed to be released gradually over the five year period following the valuation date.

The Pillar I allowance of 80 bps per annum is financially equivalent to 185 bps for the years 2009 to 2011 and 45 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.

The risk discount rate for new business profits reflects the assets allocated to back new business and an allowance for credit risk based on point of sale market conditions, consistent with how the business was priced. The allowance for credit risk at the point of sale is determined using the same methodology for in-force business. In both cases, the allowance for credit risk included in setting the discount rate reflects the three constituent elements of long-term expected defaults, long-term credit risk premiums, and additional short-term credit risk.

v The assumed long-term rate for corporate bonds for 2007 for with-profits business was determined after taking account of the purchase of credit default swaps.

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, Singapore and Taiwan operations.

The mean stochastic returns are consistent with the mean deterministic returns for each country. The expected volatility of equity returns for 2008 ranges from 18 per cent to 30 per cent (2007: 18 per cent to 25 per cent), and the volatility of government bond yields ranges from 1.4 per cent to 2.4 per cent (2007: 1.3 per cent to 2.5 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 for both 2008 and 2007 ranges from 18.6 per cent to 28.1 per cent, depending on risk class, and the standard deviation of bond returns ranges from 1.5 per cent to 1.6 per cent (2007: 1.4 per cent to 1.7 per cent).

3 Assumptions continued

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 both 2008 and 2007 are as follows:

	%
Equities:	
UK	18.0
Overseas	16.0
Property	15.0

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.

Corporate expenditure for Group Head Office, to the extent not allocated to the PAC with-profits fund, 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.

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 PRIL. 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 have been assumed to continue unaltered except where changes have been announced and the relevant legislation passed.

g Asset management and service companies
The value of future profits or losses from asset 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 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.

b 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.

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. Operating profit includes the effect of rebalancing the portfolio calibrated to investment conditions at 31 December 2006 i.e. prior to the exceptional spread widening in 2007 and 2008. Non-operating profit incorporates the effect of rebalancing calibrated by reference to changes to credit spreads since 31 December 2006.

c Pension costs

Profit before tax

Movements on the shareholders' share of surplus (to the extent not restricted by IFRIC 14) and deficits 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 surpluses or deficits attributable to the PAC with-profits 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;
- the impact of altered economic and other assumptions on the discounted value of scheme liabilities; and
- the movement in estimates of deficit funding requirements.

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 asset management operations

The results of the Group's asset 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

Previously, for the purpose of presentation of the Group's operating results, the return on capital held centrally to back the economic capital requirements for the Taiwan life business has been allocated to the operating result for Asian operations with a consequent reduction in Group shareholders' other income for EEV basis reporting. In the 2008 results this approach has no longer been applied. The presentation of the 2007 comparative results has been adjusted accordingly, as explained in note 6(ii)(b).

g Taxation

The EEV profit for the year for covered business is in most cases 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.

4 Accounting presentation continued

h Foreign currency translation

Foreign currency profits 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 profits 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 2008	Average for 2008	Closing rate at 31 Dec 2007	Average for 2007	Opening rate at 1 Jan 2007
Hong Kong	11.14	14.42	15.52	15.62	15.22
Japan	130.33	192.09	222.38	235.64	233.20
Malaysia	5.02	6.15	6.58	6.88	6.90
Singapore	2.07	2.61	2.87	3.02	3.00
Taiwan	47.28	58.24	64.56	65.75	63.77
US	1.44	1.85	1.99	2.00	1.96

The exchange movements in 2008 and 2007 recorded within the movements in shareholders' equity (and for 2008, in note 16) for long-term business and other operations comprise amounts in respect of:

	2008 £m	2007 £m
Long-term business operations:		
Asian operations	1,170	80
US operations	1,264	(53)
	2,434	27
Other operations (primarily reflecting US$ denominated holding company borrowings and hedge positions)	(424)	37
Total	2,010	64

5 Premiums, operating profit and margins from new business

a Premiums and contributions[note i]

	Single		Regular		Annual premium and contribution equivalents (APE)		Present value of new business premiums (PVNBP)	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Asian operations								
China[note iii]	63	45	32	24	38	29	230	167
Hong Kong	507	501	154	117	205	167	1,612	1,196
India (Group's 26% interest)	60	26	202	177	208	180	747	728
Indonesia	94	118	167	109	176	121	649	494
Japan	115	122	30	22	42	34	217	214
Korea	78	179	211	241	219	259	1,097	1,267
Malaysia	28	41	99	78	102	82	570	472
Singapore	341	593	78	67	112	126	961	1,047
Taiwan	153	132	189	218	204	231	1,037	1,121
Other	18	36	54	55	56	58	188	200
Total Asian operations	1,457	1,793	1,216	1,108	1,362	1,287	7,308	6,906
US operations								
Fixed annuities	1,724	573	–	–	172	57	1,724	573
Fixed index annuities	501	446	–	–	50	45	501	446
Variable annuities	3,491	4,554	–	–	349	455	3,491	4,554
Life	7	7	24	19	25	20	230	158
Guaranteed Investment Contracts	857	408	–	–	86	41	857	408
GIC – Medium Term Notes	337	527	–	–	34	53	337	527
Total US operations	6,917	6,515	24	19	716	671	7,140	6,666
UK insurance operations								
Product summary								
Internal vesting annuities	1,600	1,399	–	–	160	140	1,600	1,399
Direct and partnership annuities	703	842	–	–	70	84	703	842
Intermediated annuities	497	555	–	–	50	56	497	555
Total individual annuities	2,800	2,796	–	–	280	280	2,800	2,796
Income drawdown	75	34	–	–	8	3	75	34
Equity release	242	156	–	–	24	16	242	156
Individual pensions	115	38	3	1	14	5	124	42
Corporate pensions	221	283	88	84	110	112	645	737
Unit-linked bonds	109	243	–	–	11	24	109	243
With-profit bonds	869	297	–	–	87	30	869	297
Protection	–	–	6	5	6	5	38	26
Offshore products	551	434	4	4	59	47	573	455
PruHealth[note iv]	–	–	16	13	16	13	146	107
Total retail retirement	4,982	4,281	117	107	615	535	5,621	4,893
Corporate pensions	227	198	116	115	139	135	653	604
Other products	132	190	21	25	34	44	219	276
DWP rebates	153	143	–	–	15	14	153	143
Total mature life and pensions	512	531	137	140	188	193	1,025	1,023
Total retail	5,494	4,812	254	247	803	728	6,646	5,916
Wholesale annuities[note ii]	1,417	1,799	–	–	142	180	1,417	1,799
Credit life	18	21	–	–	2	2	18	21
Total UK insurance operations	6,929	6,632	254	247	947	910	8,081	7,736
Channel summary								
Direct and partnership	2,352	2,385	215	212	450	451	3,268	3,313
Intermediated	2,990	2,284	39	35	338	263	3,226	2,460
Wholesale[note ii]	1,434	1,820	–	–	144	182	1,434	1,820
	6,776	6,489	254	247	932	896	7,928	7,593
DWP rebates	153	143	–	–	15	14	153	143
Total UK operations	6,929	6,632	254	247	947	910	8,081	7,736
Group total	15,303	14,940	1,494	1,374	3,025	2,868	22,529	21,308

5 Premiums, operating profit and margins from new business continued

Notes

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

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

ii The table above include for 2007 the transfer of 62,000 with-profits annuity policies from Equitable Life on 31 December 2007 with assets of approximately £1.7 billion. The transfer represented an APE of £174 million.

iii Subsequent to 29 September 2007 following expiry of the previous management agreement CITIC–Prudential Life Insurance Company Ltd (CITIC-Prudential), the Group's life operation in China, has been accounted for as a 50 per cent joint venture. Prior to this date CITIC–Prudential was consolidated as a subsidiary undertaking. All premiums for CITIC–Prudential are shown at 50 per cent on a like for like basis, reflecting the constant economic interest before and after the management changes in line with the original agreement with CITIC.

iv The table above for full year 2008 and 2007 reflect the inclusion of the Group's UK health insurance joint venture operation, PruHealth.

b Operating profit

	2008 £m			2007 £m		
	Pre-tax	Tax	Post-tax Note 17(a)ii	Pre-tax	Tax	Post-tax Note 17(a)ii
Asian operations	741	(191)	550	643	(170)	473
US operations[note i]	293	(103)	190	285	(100)	185
UK insurance operations	273	(76)	197	277	(77)	200
Total	1,307	(370)	937	1,205	(347)	858

Note

i US Operations net of tax profit:

	2008 £m	2007 £m
Before capital charge	193	197
Capital charge	(3)	(12)
After capital charge	190	185

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 asset management business falling within the scope of covered business of:

	2008 £m	2007 £m
Asian operations	35	44
US operations	4	1
UK insurance operations	13	11
Total	52	56

c Margins

	2008 £m					2008 %	
	New business premiums		Annual premium and contribution equivalent	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
Asian operations[notes i,ii]	1,457	1,216	1,362	7,308	741	54	10.1
US operations	6,917	24	716	7,140	293	41	4.1
UK insurance operations[note iii]	6,929	254	947	8,081	273	29	3.4
Total	15,303	1,494	3,025	22,529	1,307	43	5.8

	2007 £m					2007 %	
	New business premiums		Annual premium and contribution equivalent	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
Asian operations[notes i, ii]	1,793	1,108	1,287	6,906	643	50	9.3
US operations	6,515	19	671	6,666	285	42	4.3
UK insurance operations[note iii]	6,632	247	910	7,736	277	30	3.6
Total	14,940	1,374	2,868	21,308	1,205	42	5.7

	New business margin	
	(APE)	(APE)
	2008 %	2007 %
Asian operations:		
Hong Kong	79	73
Korea	34	37
Taiwan[note i]	59	58
India	19	12
China[note ii]	52	50
Indonesia	58	55
Other	72	61
Weighted average for all Asian operations	54	50

Notes

i The results for Asian operations include those of the Taiwanese life operations for which the Company agreed to transfer its agency business to China Life on 20 February 2009. Details are included in note 21.

ii The tables for Asian operations above reflect the inclusion of CITIC-Prudential Life Insurance Company Ltd, the Group's life operation in China as a 50 per cent held joint venture for 2008 and 2007 reflecting the economic interest throughout both years described in note (a)iii above. Previously, for presentational purposes, the 2007 results reflected the inclusion of CITIC-Prudential as a subsidiary undertaking up to 29 September 2007 and 50 per cent thereafter following the change of management arrangement after this date, with appropriate minority interest accounting to reflect the 50 per cent economic interest. The presentation of the operating profit for 2007 has been adjusted to allocate £10 million of profit from the result for new business to business in-force to prevent distortion of the published new business margin.

iii To align with the treatment in the 2008 results, the tables for UK insurance operations above for 2007 reflect the inclusion of the Group's UK health insurance joint venture operation, PruHealth, with an APE of £13 million and PVNBP of £107 million.

5 Premiums, operating profit and margins from new business continued

New business margins are shown on two bases, namely the margins by reference to Annual Premium and Contribution Equivalents (APE) and the Present Value of New Business Premiums (PVNBP).

In general, as described in note 2a, 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 dislocation of markets in 2008, is for UK shareholder-backed annuity and lifetime mortgage business. The 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. New business profits would have been £111 million lower if end of year economic assumptions had been applied. The reduction is reflected in non-operating profit. The £111 million primarily reflects the level of credit spread widening since the point of sale. For 2007, 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 year.

6 Operating profit from business in force

	2008 £m	2007 £m
Asian operations[note ii]		
Unwind of discount and other expected returns[note i]	434	340
Changes in operating assumptions[note ii a]	135	54
Experience variances and other items[note ii b]	(1)	5
	568	399
US operations[note iii]		
Unwind of discount and other expected returns:[note i]		
On value of in-force business and required capital	176	187
On surplus assets	57	53
Spread experience variance[note iii a]	54	99
Amortisation of interest-related realised gains and losses	28	37
Changes in operating assumptions[note iii b]	(17)	(24)
Other	(5)	(10)
	293	342
UK insurance operations[note iv]		
Unwind of discount and other expected returns[note i]	569	592
Effect of change in UK corporate tax rate[note iv a]	–	67
Annuity business:[note iv b]		
Mortality strengthening	–	(312)
Release of margins	–	312
	–	–
Other items[note iv c]	195	(81)
	764	578
Total	1,625	1,319

Notes

i For Asian operations and UK insurance 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 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 balance sheet and for total profit reporting, asset values and investment returns are not smoothed. For US operations the return on surplus assets is shown separately.

ii Asian operations

a Changes in operating assumptions

The effect of changes in operating assumptions represent the following:

	2008 £m	2007 £m
Mortality and morbidity note 1	58	17
Expense note 2	26	51
Persistency note 3	36	(51)
Effect of change in corporate tax rates note 4	15	32
Other	–	5
	135	54

1 The favourable effect of £58 million relating to mortality and morbidity assumption changes mainly relates to Singapore of £34 million, Taiwan of £18 million and Hong Kong of £15 million, which reflect actual experience across most products, offset by a charge in Malaysia of £(19) million which reflects negative morbidity experience on A&H products.

2 The favourable overall net effect of £26 million for expense assumption changes in 2008 mainly relates to a reduction in investment management expenses. The credit of £51 million for 2007 mainly relates to Singapore (£37 million) and Korea (£21 million) both due to increases in investment margins.

3 The favourable effect of the change in persistency assumptions of £36 million in 2008 predominately arises in Singapore of £90 million, Hong Kong of £28 million and Malaysia of £21 million which reflect altered lapse rates, arising from recent experience, offset by charges in Taiwan of £(45) million and Korea of £(44) million mainly relating to premium holidays. The charge of £(51) million for the effect of changes in persistency assumptions in 2007 mainly arise in Singapore (£(29) million) as a result of changes in a number of product related features and updated maturity assumptions in Taiwan (£(15) million) from an increase in lapse rates, reflecting recent experience.

4 The effect of change in corporate tax rates represents the effect of incorporating the benefit arising from the reduction in the corporate tax rate in Indonesia for 2008 and in China, Malaysia and Singapore for 2007.

b Experience variances and other items

Experience variances and other items of a charge of £(1) million (2007: credit of £5 million) include a credit of £36 million (2007: £47 million) for favourable mortality and morbidity experience variance relating to better than expected experience across most territories, offset by a charge of £(34) million (2007: £(27) million) for expense experience variances and £(3) million (2007: £(4) million) of other charges. Also for 2007 there is a charge of £(11) million in respect of Vietnam for higher than expected investment fees payable on asset managers' performance.

The negative expense experience variance of £(34) million for 2008 includes £(11) million arising in Korea, reflecting lower sales, and includes a charge of £(9) million for expense overruns for China which is at a relatively early stage of development, for which the expenses for new business are in excess of the target levels factored into the valuation of new business. On the basis of current plans the target level for expenses for this operation is planned to be attained in 2012. The negative experience variance in 2007 of £(27) million arose in China of £(12) million and India of £(15) million.

The 2007 comparative result has been increased by £10 million for the adjustment in respect of China (as explained in note 5c) and reduced by £(4) million for the discontinuance of the allocation of notional return on centrally held economic capital in respect of Taiwan from shareholders' other income to the result for Asian operations as explained in note 4f. Other income is increased by an equivalent amount. Total profits are unaffected by these adjustments.

iii US operations

a Spread experience variance

The spread assumption for Jackson is determined on a longer-term basis net of a provision for defaults, with impairment losses in excess of the provision for defaults taken through short-term fluctuations in investment returns.

b Changes in operating assumptions

The effect of changes in operating assumptions for US operations is as follows:

	2008 £m
Mortality note 1	31
Variable annuity (VA) fees note 2	29
Effect of adjustments for certain reserves, surplus note borrowings and required capital	
Interest Maintenance Reserve (IMR) note 3	(10)
Variable Annuity Statutory Reserves note 4	(68)
Required Capital note 5	17
Surplus note borrowings note 6	–
Total note 7	(61)
Other	(16)
Total	(17)

Financial statements

EEV

6 Operating profit from business in force continued

Notes continued

1 The effect of changes in mortality assumptions reflect lower mortality rates for life products consistent with recent experience.

2 The effect of change in assumption in respect of VA fees represents an overall increase in the level of projected advisory fees for variable annuity business.

3 The IMR is a statutory liability in respect of realised gains on the sale of bonds which, on a regulatory basis, are amortised to income over time in line with the duration of the bonds sold. The 2008 results reflect this reserve as an explicit liability, consistent with the regulatory basis which, after the effects of discounting results in a charge to embedded value of £(10) million.

4 The statutory reserves are primarily in respect of guarantees on variable annuity products in excess of the surrender value. The impact of including these amounts as explicit liabilities, consistent with the regulatory basis, after the effects of discounting, results in a charge to embedded value of £(68) million.

5 The adjustment in respect of required capital represents a current year refinement to reduce the required capital to align the amount with the required level which has been set as an amount at least equal to 235 per cent of the risk-based capital required by National Association of Insurance Commissioners at the Company Action Level, which is sufficient to meet the economic capital requirement. The decrease results in an associated benefit from a reduction in the cost of capital of £17 million.

6 The surplus note borrowings have been reflected as contributing to the capital in the net worth but with the obligation deducted from the value of in-force business, with an overall net nil effect on the embedded value.

7 The adjustments in respect of the IMR, variable annuity reserves, surplus note borrowings and required capital detailed in 3 to 6 above also resulted in a post-tax net reallocation from free surplus and required capital of £(110) million and £(137) million respectively to the value of in-force of £207 million, as detailed in note 17a.

iv UK insurance operations

a Effect of change in UK corporate tax rate

The comparative results for 2007 of £67 million reflect the effects of the change to reduce the UK corporate tax rate from 30 per cent to 28 per cent in projecting the tax cash flows attaching to in-force business.

b Annuity business

For UK insurance operations there is a net nil charge or credit for the 2008 and 2007 results. However, the 2007 results for annuity business have been determined after a strengthening of explicit mortality assumptions and the release of excess margins in the aggregate liabilities that had previously been set aside as an indirect extra allowance for longevity related risks.

The overall impact of the assumption changes and release of margins for 2007 is as follows:

		2007 £m
Strengthening of mortality assumptions		(312)
Release of margins:		
Projected benefit related	144	
Investment related	82	
Expense related	29	
Other	57	
		312
		0

c Other items

Other items for UK insurance operations in 2008 are in aggregate a credit of £195 million. Consistent with the methodology applied in previous years, this amount includes a credit of £118 million resulting from part of the effect of rebalancing the asset portfolio backing annuity business on the valuation interest rate for determining Pillar I liabilities. The rebalancing reflects changes to the portfolio to more closely align the credit quality with management benchmark. The £118 million effect of rebalancing included in operating profit reflects longer-term levels of credit spread evident as at 31 December 2006 i.e. prior to the exceptional credit 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 12. The £195 million credit also includes a cost of capital charge of £(34) million for the effect of holding the short-term credit risk reserve for statutory reporting, as described in note 3b, and releasing it over an assumed five year period. Also included in operating profit for business in-force is a credit of £56 million in respect of the release of certain annuity business reserves, a credit of £24 million in respect of the release of prior period provisions relating to Credit Life business, and a net credit of £31 million for other items.

The charge of £(81) million for 2007 includes £(13) million in respect of annual licence fee payments, £(36) million of costs associated with product and distribution development, £(14) million for expense over-runs in respect of a tariff agreement with SAIF and £(19) million for other items which includes a credit of £1 million for a positive persistency experience.

The annual 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.

For 2007, the expense over-runs arising from the tariff arrangement in respect of SAIF of £14 million were borne by a service company. The arrangement was in place until the end of 2007 and was onerous to shareholders.

The 2007 comparative result has been reduced by £4 million in respect of the separate disclosure of UK general insurance commission. Total operating profit from UK insurance operations is unaffected by this adjustment.

7 Investment return and other income

	2008 £m	2007 £m
IFRS basis	89	86
Less: projected asset management result in respect of covered business incorporated in opening EEV value of in-force business	(42)	(37)
EEV basis	47	49

8 Restructuring costs

Restructuring costs have been incurred as follows:

	2008 £m	2007 £m
UK insurance operations	14	8
Unallocated corporate	18	12
Total	32	20

The charge of £32 million (2007: £20 million) comprises £28 million (2007: £19 million) recognised on the IFRS basis and an additional £4 million (2007: £1 million) recognised on the EEV basis for the shareholders' share of costs incurred by the PAC with-profits fund.

9 Short-term fluctuations in investment returns

	2008 £m	2007 £m
Insurance operations:		
Asia[note i]	(1,063)	226
US[note ii]	(1,344)	(9)
UK[note iii]	(2,407)	(42)
Other operations[note iv]	(313)	(1)
Total	(5,127)	174

Notes

i Asian operations

	2008 £m
Singapore	(310)
Hong Kong	(284)
Taiwan	(163)
Other operations	(306)
	(1,063)

For Singapore and Hong Kong, the short-term fluctuations in investment returns primarily reflects the effect of substantial equity market falls on unit-linked and with-profits business. For unit-linked business, the short-term fluctuation in investment returns reflects the reduction in the value of the asset base and the consequent effect on the projection of future management fees. For with-profits business, the short-term fluctuation in investment returns reflects the difference between the shareholders' 10 per cent interest in the value movements on the assets and the unwind of discount on the opening shareholders' interest in the surplus.

The short-term fluctuations in investment returns for Taiwan principally reflect the equity market fall and a £(40) million value reduction for an investment in a CDO fund.

For 2007, the short-term fluctuations in investment returns for Asian operations of £226 million arose mainly from favourable equity investment performance in most territories, principally in Hong Kong of £102 million, Vietnam of £66 million and Singapore of £38 million offset by a negative fluctuation in Taiwan of £(26) million principally due to a £(30) million value reduction for an investment in a CDO fund.

9 Short-term fluctuations in investment returns continued

Notes continued

ii US operations

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:

	2008 £m	2007 £m
Realised impairment losses:		
Actual losses on fixed income securities	(466)	(78)
Less: Risk margin charge included in operating profit	54	48
	(412)	(30)
Loss due to changed expectation of profits from fees on in-force variable annuity business in future periods based on current period equity returns, net of related hedging activity*	(733)	(16)
Actual less longer-term return on equity-type securities	(148)	51
Other	(51)	(14)
	(1,344)	(9)

* This adjustment arises due to the market returns being lower than the assumed longer-term rate of return. This gives rise to lower 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 from altered fees. For 2008, the US equity market returns were approximately negative 38.5 per cent compared to the assumed longer-term rate of return of 5.8 per cent.

iii UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations for 2008 arise on the following types of business:

	2008 £m
With-profits[note a]	(2,083)
Shareholder-backed annuity[note b]	(213)
Unit-linked and other[note c]	(111)
	(2,407)

Notes

a For with-profits business the charge represents the negative actual investment return on the PAC with-profits fund of (19.7) per cent against an assumed rate of 6.6 per cent.

b Short-term fluctuations in investment returns on shareholder-backed annuity business represent the unrealised loss on surplus assets and default experience.

c The charge of £(111) 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 year.

For 2007, the short-term fluctuations in investment returns for UK insurance operations of £(42) million primarily reflects value movements on the bond holdings of PRIL's shareholders' funds due to the net effect of widened credit spreads and reduced interest rates together with the difference between the actual investment returns for the with-profits life fund of 7.2 per cent and the gross long-term assumed rate of 7.85 per cent.

iv Other operations

Short-term fluctuations in investment returns of other operations arises from:

	2008 £m
Sale of investment in India mutual fund in May 2008 giving rise to a transfer to operating profit of £47 million for the crystallised gain, and value reduction in the period, prior to sale, of £24 million	(71)
Unrealised value movements on swaps held centrally to manage Group assets and liabilities	(38)
Unrealised value movements, net of hedge effects, on Prudential Capital's bond portfolio	(190)
Unrealised value movements on a centrally held investment	(14)
	(313)

10 Mark to market value movements on core borrowings

	2008 £m	2007 £m
US operations	37	9
Other operations	619	214
Total	656	223

Core borrowings of the Group are marked to market value under EEV. The figures in the table above reflect the movement in the difference between market and IFRS carrying values. As the liabilities are generally held to maturity or for the long term, no deferred tax asset or liability has been established on the difference (compared to IFRS) in carrying value. Accordingly, no deferred tax charge is recorded in the results in respect of the 2008 credit of £656 million (2007: £223 million).

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

The loss of £(15) million (2007: loss of £(5) million) included within the (loss) profit before tax reflects the shareholders' share of actuarial and other gains and losses on the Group's defined benefit pension schemes and can be analysed as follows:

	2008 £m	2007 £m
PSPS	(5)	–
M&G pension scheme	(9)	5
Scottish Amicable pension scheme	2	(10)
Taiwan	(3)	–
Total	(15)	(5)

On the EEV basis this (charge) gain includes a 10 per cent share of the actuarial gains and losses on the share attributable to the PAC with-profits fund for the Scottish Amicable Pension Scheme. Consistent with the derecognition of the Company's interest in the underlying surplus for PSPS, under the change of accounting policy described in note 20, it is not appropriate to report actuarial gains and losses for PSPS. The other losses for PSPS of £(5) million represent the change during 2008 in the provision for the deficit funding obligation.

12 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 the (loss) profit from continuing operations before tax (including actual investment returns) arise as follows:

	2008 £m			2007 £m		
	Change in economic assumptions	Change in time value of cost of options and guarantees	Total	Change in economic assumptions	Change in time value of cost of options and guarantees	Total
Asian operations note i	(34)	8	(26)	201	9	210
US operations note ii	267	11	278	81	8	89
UK insurance operations notes iii,iv	(783)	(50)	(833)	466	(17)	449
Total	(550)	(31)	(581)	748	0	748

Notes

i The effect of changes in economic assumptions in Asia for 2008 of a charge of £(34) million includes a negative effect in Taiwan of £(185) million reflecting a charge of £(239) million for the impact of extending the phased bond yield progression period in Taiwan out by five years from 31 December 2013 to 31 December 2018, as described in note 3, offset by the impact in other territories, mainly reflecting the reduction in risk discount rates.

ii The credit for the effect of changes in economic assumptions for 2008 for US operations of £267 million primarily arises as a result of the impact of a change in the risk discount rate of £454 million, partially offset by the impact of a decrease in the variable annuity separate account return of £(230) million, both movements reflecting the 180 bps reduction in the 10-year Treasury rate as shown in note 3b.

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

Notes continued

iii The effect of changes in economic assumptions of a charge of £(783) million for UK insurance operations comprises the effect of:

	Shareholder-backed annuity business (note a) £m	With-profits and other business (note b) £m	Total 2008 £m
Increase (decrease) in portfolio yields	83	(1,082)	**(999)**
(Increase) decrease in risk discount rates	(394)	668	**274**
Other changes	(6)	(52)	**(58)**
	(317)	(466)	**(783)**

Notes

a For shareholder-backed annuity business (i.e. held in PRIL and the PAC non-profit sub-fund) the impact of the change in risk discount rate 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 of the asset portfolios). The impact of the change in portfolio yields of £83 million includes a profit of £231 million in respect of the rebalancing, calculated by reference to changes in credit spreads since 31 December 2006.

b For with-profits and other business the decrease in fund earned rates and risk discount rates primarily reflects the reduction in gilt rates of (0.85) per cent.

iv The effect of changes in time value of cost of options and guarantees of a charge of £(50) million primarily relates to with-profits business reflecting the effect of the reduction in fund earned rates, as described in iii(b) above.

13 Tax attributable to shareholders' (loss) profit

The tax (credit) charge comprises:

	2008 £m	2007 £m
Tax charge on operating profit from continuing operations based on longer-term investment returns		
Long-term business:[note i]		
Asian operations[notes ii,iii]	**329**	252
US operations	**205**	197
UK insurance operations[notes ii,iii]	**269**	236
	803	685
Other operations	**(38)**	7
Total tax charge on operating profit from continuing operations based on longer-term investment returns	**765**	692
Tax (credit) charge on items not included in operating profit		
Tax (credit) charge on short-term fluctuations in investment returns	**(1,411)**	22
Tax (credit) charge on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	**(3)**	0
Tax (credit) charge on effect of changes in economic assumptions and time value of cost of options and guarantees	**(122)**	213
Total tax (credit) charge on items not included in operating profit from continuing operations	**(1,536)**	235
Tax (credit) charge on (loss) profit on ordinary activities from continuing operations (including tax on actual investment returns)[note iv]	**(771)**	927

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, the effective rate is the UK corporation tax rate of 28 per cent which took effect from 1 April 2008. For Jackson, the US federal tax 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 Asia development expenses and restructuring costs borne by UK insurance operations.

iii The tax charge for 2008 includes the notional tax gross up of £4 million attaching to the change of corporate tax rate in Indonesia and in 2007 of £26 million attaching to the change of corporate tax rates in China, Malaysia, Singapore and the UK.

iv The 2007 comparatives for the tax charges for continuing operations shown above exclude discontinued banking operations, which were sold on 1 May 2007.

14 Earnings per share (EPS)

	2008 £m	2007 £m
Operating EPS from continuing operations:		
Operating profit before tax	2,961	2,530
Tax	(765)	(692)
Minority interests	(5)	(17)
Operating profit after tax and minority interests from continuing operations	2,191	1,821
Operating EPS from continuing operations (pence)	88.6p	74.5p
Total EPS from continuing operations:		
Total (loss) profit before tax	(2,106)	3,670
Tax	771	(927)
Minority interests	(3)	(21)
Total (loss) profit after tax and minority interests from continuing operations	(1,338)	2,722
Total EPS from continuing operations (pence)	(54.1)p	111.3p
Average number of shares (millions)	2,472	2,445

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

	2008 £m	2007 £m
Asian operations		
Long-term business:note i		
Net assets of operations – EEV basis shareholders' funds	5,264	3,726
Acquired goodwillnote ii	111	111
Asset management:note iii		
Net assets of operations	167	111
Acquired goodwillnote ii	61	61
	5,603	4,009
US operations		
Jackson (net of surplus note borrowings of £154m (2007: £147m):note iv		
Shareholders' funds before capital charge	4,357	3,689
Capital chargenote v	(18)	(84)
EEV basis shareholders' funds	4,339	3,605
Broker-dealer and asset management operationsnote iii	114	81
	4,453	3,686
UK operations		
Long-term business operations:notes i,vi		
Smoothed shareholders' fundsnote vii	5,437	6,031
Actual shareholders' funds less smoothed shareholders' funds	(518)	466
EEV basis shareholders' funds	4,919	6,497
M&G:note iii		
Net assets of operations	147	271
Acquired goodwillnote ii	1,153	1,153
	6,219	7,921
Other operations		
Holding company net borrowings at market valuenote iv	(818)	(873)
Other net liabilitiesnote iii	(501)	(143)
	(1,319)	(1,016)
Total	14,956	14,600

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

iii With the exception of the share of pension scheme deficit attributable to the PAC with-profits fund, which is included in 'Other operations' net liabilities, and the borrowings as described in note iv, 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 overall pension scheme deficit, net of tax, attributable to shareholders relating to the Prudential Staff Pension and Scottish Amicable Pension Schemes is determined as shown below:

	2008 £m	2007 £m
IFRS basis deficit (relating to shareholder-backed operations)	(31)	(41)
Additional EEV deficit (relating to shareholders' 10 per cent share of the IFRS basis deficit attributable to the PAC with-profits fund)	(6)	(9)
EEV basis	(37)	(50)

iv Net core structural borrowings of shareholder-financed operations comprise:

	IFRS basis 2008 £m	Mark to market value adjustment 2008 £m	EEV basis at market value 2008 £m	IFRS basis 2007 £m	Mark to market value adjustment 2007 £m	EEV basis at market value 2007 £m
Holding company* cash and short-term investments	1,165	–	1,165	1,456	–	1,456
Core structural borrowings – central funds(note)	(2,785)	802	(1,983)	(2,367)	38	(2,329)
Holding company net borrowings	(1,620)	802	(818)	(911)	38	(873)
Core structural borrowings – Jackson	(173)	19	(154)	(125)	(22)	(147)
	(1,793)	821	(972)	(1,036)	16	(1,020)

* Including central finance subsidiaries.

Note

EEV basis holding company borrowings comprising:

	2008 £m	2007 £m
Perpetual subordinated capital securities (Innovative Tier 1)	(513)	(679)
Subordinated debt (Lower Tier 2)	(737)	(817)
Senior debt	(733)	(833)
	(1,983)	(2,329)

In accordance with the EEV Principles, core borrowings are carried at market value.

v In determining the cost of capital for Jackson, it has been assumed that 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 must be retained. The related capital charge reflects the assumptions discussed in note 3b, together with the adjustments to required capital described in note 6iii.

vi 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.

vii UK long-term business smoothed shareholders' funds reflect an adjustment to the assets of the PAC with-profits 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.

16 Reconciliation of movement in shareholders' funds

	2008 £m					
	Long-term business operations					
	Asian operations	US operations	UK insurance operations	Total long-term business operations	Other operations	Group Total
Operating profit from continuing operations (based on longer-term investment returns)						
Long-term business:						
New business[5]	741	293	273	1,307		1,307
Business in force[6]	568	293	764	1,625		1,625
	1,309	586	1,037	2,932		2,932
Asia development expenses	(26)			(26)		(26)
UK general insurance commission					44	44
M&G					286	286
Asian asset management operations					52	52
US broker-dealer and asset management					10	10
Curian					(3)	(3)
Other income and expenditure					(302)	(302)
Restructuring costs[8]			(14)	(14)	(18)	(32)
Operating profit from continuing operations based on longer-term investment returns	1,283	586	1,023	2,892	69	2,961
Short-term fluctuations in investment returns[9]	(1,063)	(1,344)	(2,407)	(4,814)	(313)	(5,127)
Mark to market value movements on core borrowings[10]		37		37	619	656
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes[11]	(3)			(3)	(12)	(15)
Effect of changes in economic assumptions and time value of cost of options and guarantees[12]	(26)	278	(833)	(581)	–	(581)
Profit (loss) from continuing operations before tax (including actual investment returns)	191	(443)	(2,217)	(2,469)	363	(2,106)
Tax (charge) credit attributable to shareholders' profit (loss):[13]						
Tax on operating profit	(329)	(205)	(269)	(803)	38	(765)
Tax on short-term fluctuations in investment returns	167	492	683	1,342	69	1,411
Tax on shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	1			1	2	3
Tax on effect of changes in economic assumptions and time value of cost of options and guarantees	(14)	(97)	233	122	–	122
Total tax (charge) credit	(175)	190	647	662	109	771
Minority interests	2	–	(1)	1	(4)	(3)
Profit (loss) for the year	18	(253)	(1,571)	(1,806)	468	(1,338)
Exchange movements[note i]	1,170	1,264	–	2,434	(424)	2,010
Related tax					119	119
Intra group dividends (including statutory transfer)	(36)	(169)	(296)	(501)	501	–
External dividends					(453)	(453)
Reserve movements in respect of share-based payments					18	18
Investment in operations[note ii]	389	–	322	711	(711)	–
Other transfers[note iv]	(3)	40	(33)	4	(4)	–
Movement in own shares in respect of share-based payment plans					3	3
Movement on Prudential plc shares purchased by unit trusts consolidated under IFRS					(25)	(25)
New share capital subscribed					170	170
Mark to market value movements on Jackson assets backing surplus and required capital		(148)		(148)		(148)
Net increase (decrease) in shareholders' equity	1,538	734	(1,578)	694	(338)	356
Shareholders' equity at 1 January 2008						
as previously published	3,726	3,605	6,497	13,828	951	14,779
effect of adoption of principles of IFRIC 14 for accounting for pension schemes	–	–	–	–	(179)	(179)
after adoption of IFRIC 14	3,726	3,605	6,497	13,828	772	14,600
Shareholders' equity at 31 December 2008[note iii,15]	5,264	4,339	4,919	14,522	434	14,956

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 2008 and 2007 exchange rates as applied to shareholders' funds at 1 January 2008 and the difference between 31 December 2008 and average 2008 rates for profits.

ii Investment in operations reflects increases in share capital. This includes certain non-cash items as detailed in note 17(b)(x).

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 in 2008 represent:

	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m
Adjustment for net of tax asset management projected profits of covered business	(15)	(3)	(17)	(35)
Other adjustments	12	43	(16)	39
	(3)	40	(33)	4

EEV basis shareholders' equity at 31 December 2008	Long-term business operations					
	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m	Other operations £m	Group total £m
Analysed as:						
Statutory IFRS basis shareholders' equity	2,056	1,698	1,655	5,409	(351)	5,058
Additional retained profit on an EEV basis	3,208	2,641	3,264	9,113	785	9,898
EEV basis shareholders' equity	5,264	4,339	4,919	14,522	434	14,956
Comprising:						
Free surplus	(240)	501	186	447		
Required capital	1,789	1,400	928	4,117		
Value of in-force business before deduction of cost of capital and of guarantees	4,590	2,838	4,263	11,691		
Cost of capital	(869)	(18)	(372)	(1,259)		
Cost of time value of guarantees	(6)	(382)	(86)	(474)		
	5,264	4,339	4,919	14,522		

EEV basis shareholders' equity at 1 January 2008	Long-term business operations					
	Asian operations £m	US operations £m	UK insurance operations £m	Total long-term business operations £m	Other operations £m	Group total £m
Analysed as:						
Statutory IFRS basis shareholders' equity	1,258	2,690	1,364	5,312	750	6,062
Additional retained profit on an EEV basis	2,468	915	5,133	8,516	22	8,538
EEV basis shareholders' equity	3,726	3,605	6,497	13,828	772	14,600
Comprising:						
Free surplus	49	1,147	272	1,468		
Required capital	907	1,072	891	2,870		
Value of in-force business before deduction of cost of capital and of guarantees	3,245	1,612	5,641	10,498		
Cost of capital	(472)	(84)	(251)	(807)		
Cost of time value of guarantees	(3)	(142)	(56)	(201)		
	3,726	3,605	6,497	13,828		

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

a Summary by business unit

Reconciliation of net worth and value of in-force business for 2008 note i	2008 £m Free Surplus note iv	Required capital	Total net worth	Value of in-force business note v	Total long-term business
Shareholders' equity at 1 January 2008 note vi	1,468	2,870	4,338	9,490	13,828
New business contribution note ii, iii	(825)	472	(353)	1,290	937
Existing business – transfer to net worth	1,413	(416)	997	(997)	–
Expected return on existing business	53	130	183	718	901
Changes in operating assumptions and experience variances:					
Adjustments in respect of certain statutory reserves, required capital and surplus note borrowings note viii	(187)	(137)	(324)	284	(40)
Effect of establishment and increase in allowance for short-term credit risk under the statutory (Pillar I) reporting*	(770)	41	(729)	705	(24)
Other	(64)	169	105	210	315
	(1,021)	73	(948)	1,199	251
Changes in non-operating assumptions and experience variances and minority interests	(915)	165	(750)	(3,145)	(3,895)
(Loss) profit on ordinary activities after tax and minority interests from long-term business	(1,295)	424	(871)	(935)	(1,806)
Exchange movements	76	823	899	1,535	2,434
Intra-group dividends (including statutory transfer) and investment in operations	342		342	(132)	210
Mark to market value movements on Jackson assets backing surplus and required capital	(148)		(148)		(148)
Other transfers to net worth note vii	4		4		4
Shareholders' equity at 31 December 2008 note vi	447	4,117	4,564	9,958	14,522
Representing:					
Asian operations					
Shareholders' equity at 1 January 2008	49	907	956	2,770	3,726
New business contribution	(243)	42	(201)	751	550
Existing business – transfer to net worth	459	(85)	374	(374)	–
Expected return on existing business	(8)	61	53	283	336
Changes in operating assumptions and experience variances	(181)	178	(3)	71	68
Changes in non-operating assumptions and experience variances and minority interests	(521)	256	(265)	(671)	(936)
(Loss) profit on ordinary activities after tax and minority interests from long-term business	(494)	452	(42)	60	18
Exchange movements	(145)	430	285	885	1,170
Intra-group dividends (including statutory transfer) and investment in operations	353		353		353
Other transfers from net worth	(3)		(3)		(3)
Shareholders' equity at 31 December 2008	(240)	1,789	1,549	3,715	5,264

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

a Summary by business unit continued

Reconciliation of net worth and value of in-force business for 2008[note i]	2008 £m				
	Free surplus note iv	Required capital	Total net worth	Value of in-force business note v	Total long-term business
US operations					
Shareholders' equity at 1 January 2008	1,147	1,072	2,219	1,386	3,605
New business contribution	(289)	265	(24)	214	190
Existing business – transfer to net worth	379	(226)	153	(153)	–
Expected return on existing business	37	40	77	75	152
Changes in operating assumptions and experience variances:					
Adjustments in respect of certain statutory reserves, required capital and surplus note borrowings[note viii]	(110)	(137)	(247)	207	(40)
Other	(1)	(7)	(8)	87	79
	(111)	(144)	(255)	294	39
Changes in non-operating assumptions and experience variances and minority interests	(606)		(606)	(28)	(634)
(Loss) profit on ordinary activities after tax and minority interests from long-term business	(590)	(65)	(655)	402	(253)
Exchange movements	221	393	614	650	1,264
Intra-group dividends (including statutory transfer) and investment in operations	(169)		(169)		(169)
Mark to market value movements on Jackson assets backing surplus and required capital	(148)		(148)		(148)
Other transfers to net worth	40		40		40
Shareholders' equity at 31 December 2008	501	1,400	1,901	2,438	4,339
UK insurance operations					
Shareholders' equity at 1 January 2008	272	891	1,163	5,334	6,497
New business contribution	(293)	165	(128)	325	197
Existing business – transfer to net worth	575	(105)	470	(470)	–
Expected return on existing business	24	29	53	360	413
Changes in operating assumptions and experience variances:					
Adjustment in respect of certain statutory reserves[note viii]	(77)	–	(77)	77	–
Effect of establishment and increase in allowance for short-term credit risk under statutory (Pillar I) reporting*	(770)	41	(729)	705	(24)
Other	118	(2)	116	52	168
	(729)	39	(690)	834	144
Changes in non-operating assumptions and experience variances and minority interests	212	(91)	121	(2,446)	(2,325)
(Loss) profit on ordinary activities after tax and minority interests from long-term business	(211)	37	(174)	(1,397)	(1,571)
Intra-group dividends (including statutory transfer) and investment in operations	158		158	(132)	26
Other transfers from net worth	(33)		(33)		(33)
Shareholders' equity at 31 December 2008	186	928	1,114	3,805	4,919

* This adjustment reflects the reserve for short-term credit risk that was established for Pillar I reporting subsequent to the EEV full year 2007 basis results announced in March 2008 and the movement in 2008.

Notes

i All figures are shown net of tax.

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

	2008 £m	2007 £m
Free surplus	**(825)**	(544)
Required capital	**472**	308
Total net worth	**(353)**	(236)
Value of in-force business	**1,290**	1,094
Total long-term business[5]	**937**	858

iii New business capital usage

	Free surplus £m	Annual premium equivalent (APE) note 5a £m	New business capital usage per £100m APE £m
Asian operations	(243)	1,362	18
US operations	(289)	716	40
UK insurance operations	(293)	947	31
	(825)	3,025	27

iv 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.

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

vi Included in the EEV basis shareholders' funds of long-term business operations of £14,522 million (2007: £13,828 million) is £409 million (2007: £349 million) in respect of asset management business falling within the scope of covered business as follows:

	2008 £m	2007 £m
Asian operations	273	204
US operations	19	12
UK insurance operations	117	133
	409	349

vii Other transfers from net worth

	2008 Note 16iv £m
Adjustment for net of tax asset management projected profits of covered business	(35)
Other adjustments	39
	4

viii The charge of £40 million to total EEV represents the cost of capital relating to the reallocation of certain items from net worth to the value of in-force business for US and UK operations. These adjustments related to the following items:

	2008 £m				
	Free surplus	Required capital	Net worth	Value of in-force business	Total long-term business
US operations:					
Interest Maintenance Reserve (IMR) and certain statutory reserves relating to variable annuity business[note 1]	(404)	–	(404)	353	(51)
Required capital[note 2]	137	(137)	0	11	11
Surplus note borrowings[note 3]	157	–	157	(157)	–
	(110)	(137)	(247)	207	(40)
UK insurance operations[note 4]	(77)	–	(77)	77	–
Total	(187)	(137)	(324)	284	(40)

1 These reserves represent additional prudent reserves recognised for local regulatory purposes and comprise reductions in free surplus of £(45) million in respect of the Interest Maintenance Reserve (IMR) and £(359) million relating to certain statutory reserves for variable annuity business. The value of in-force business reflects an increase of £38 million in respect of the IMR and £315 million in respect of the reallocation of other statutory reserves. The IMR is a statutory liability in respect of realised gains on the sale of bonds which, on a regulatory basis, are amortised to income over time, in line with the duration of the bonds sold. The statutory reserves are in respect of guarantees on variable annuity products in excess of the surrender value. Previously for EEV basis reporting, the IMR and these certain statutory variable annuity reserves were immediately released from the value of in-force business and treated as elements of free surplus. Their reallocation to the value of in-force business reflects the reinstatement of these amounts as explicit liabilities, consistent with the regulatory basis.

2 The adjustment to reduce required capital for US operations represents a current year refinement to align the amount with the required level which has been set as an amount at least equal to 235 per cent of the risk-based capital required by National Association of Insurance Commissioners at the Company Action Level, which is sufficient to meet the economic capital requirement.

3 The surplus note borrowings have been reflected as contributing to the capital in the net worth but with the obligation deducted from the value of in-force business.

4 These reserves represent additional prudent reserves recognised for local regulatory purposes.

Notes on the EEV basis supplementary information
continued

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

b Group analysis of underlying business activity

The following analysis shows the movement in embedded value arising from the Group's underlying business activity and the effects of the current extraordinary market conditions.

Group[note i]	Free surplus note ii £m	Required capital note iii £m	Net worth £m	Value of in-force business £m	Total long-term business £m
Underlying movement					
New business	(825)	472	(353)	1,290	937
Business in force – expected transfer	1,413	(416)	997	(997)	–
– unwind of discount, effects of changes in operating assumptions, operating experience variances and other operating items[note vii]	(11)	299	288	928	1,216
	577	355	932	1,221	2,153
Investment movements and economic effects:					
UKIO additional allowance for short-term credit risk[note iv]	(770)	41	(729)	705	(24)
Jackson impairment losses in excess of longer term expected returns net of defaults	(268)	0	(268)	0	(268)
Other investment movements and effect of changes in economic assumptions[note v]	(647)	165	(482)	(3,145)	(3,627)
	(1,685)	206	(1,479)	(2,440)	(3,919)
Net cash flows to parent company[note viii]	(166)	0	(166)	(132)	(298)
Other items[note ix]	253	686	939	1,819	2,758
Net movement	(1,021)	1,247	226	468	694
Balance at 1 January 2008	1,468	2,870	4,338	9,490	13,828
Balance at 31 December 2008	447	4,117	4,564	9,958	14,522

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 2b.

iv The increase in UKIO credit provisions reflects the allowances explained in note 3.

v Other 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 business £m	Total long-term business £m
Other investment movements[note vi]	(681)	(27)	(708)	(2,496)	(3,204)
Effect of changes in economic assumptions[note vii]	34	192	226	(649)	(423)
	(647)	165	(482)	(3,145)	(3,627)

vi 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.

vii The underlying movement in free surplus includes £85 million for the effect of rebalancing the asset portfolio for UK annuity business, as described in note 6iv c. The effect of changes in economic assumptions on free surplus includes a credit of £166 million in respect of rebalancing as described in note 12.

viii Net cash flows to or from parent company reflect the flows for long-term business operations as included in the holding company cash flow at transaction rate.

ix Other items represent:

	Free surplus note ii £m	Required capital note iii £m	Net worth £m	Value of in-force business £m	Total long-term business £m
Exchange movements[17a]	76	823	899	1,535	2,434
Mark to market value movements on Jackson assets backing surplus and required capital	(148)	–	(148)	–	(148)
Other[note x]	325	(137)	188	284	472
	253	686	939	1,819	2,758

x The effect of other items on total embedded value of £472 million primarily relate to the impact on free surplus of an intra-group capital adjustment in respect of UK insurance operations of £320 million, an adjustment for funds loaned to the parent company of £133 million from Singapore and an adjustment of £50 million to reflect the cash flows to parent company at year end rates of exchange, consistent with the closing embedded value. Also included is a net overall charge of £(40) million for the reallocation of certain statutory reserves for UK insurance and US operations, an adjustment to required capital and the reallocation of surplus note borrowings for US operations. The effect of these adjustments is a decrease in free surplus of £(187) million, a reduction in required capital of £(137) million and an increase in the value of in-force business of £284 million.

18 Expected transfer of value of in-force business to free surplus

The discounted value of in-force business and required capital at 31 December 2008 can be reconciled to the analysis of free surplus crystallisation as follows:

	2008 £m
Required capital[17]	4,117
Value of in-force (VIF)[17]	9,958
Add: cost of time value of guarantees[16]	474
Other items	(181)
	14,368

Other items includes the deduction of the value of the shareholders' interest in the Estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the value of the Estate from the expected free surplus generation profile below. Offset against this value are amounts treated as capital for regulatory purposes (and hence treated as capital for net worth purposes) but which are deducted in full against the VIF (i.e. the full undiscounted value).

Cash flows are projected on a certainty equivalent basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's embedded value methodology reporting and so is subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business at 31 December 2008 and the associated required capital is modelled as emerging into free surplus over future years.

		Expected period of conversion of future post tax distributable earnings and required capital flows to free surplus				
	2008 Total as shown above £m	1-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	20+ years £m
Asian operations	5,373	1,746	1,150	859	564	1,054
US operations	4,374	2,415	1,167	460	180	152
UK insurance operations	4,621	2,297	975	600	389	360
Total	14,368	6,458	3,292	1,919	1,133	1,566
	100%	45%	23%	13%	8%	11%

19 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 2008 (31 December 2007) and the new business contribution after the effect of encumbered capital for 2008 and 2007 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;
- 10 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.

	2008 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
New business profit for 2008				
As reported[5]	741	293	273	1,307
Discount rates – 1% increase	(88)	(25)	(52)	(165)
Interest rates – 1% increase	(20)	21	(5)	(4)
Interest rates – 1% decrease	23	(47)	6	(18)
Equity/property yields – 1% rise	30	28	15	73
Embedded value of long-term operations at 31 December 2008				
As reported[16]	5,264	4,339	4,919	14,522
Discount rates – 1% increase	(564)	(170)	(361)	(1,095)
Interest rates – 1% increase[note i]	0	(123)	(98)	(221)
Interest rates – 1% decrease[note i]	(36)	19	121	104
Equity/property yields – 1% rise	294	114	276	684
Equity/property market values – 10% fall	(129)	(117)	(381)	(627)
Statutory minimum capital	513	11	5	529

	2007 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
New business profit for 2007				
As reported[5]	643	285	277	1,205
Discount rates – 1% increase	(77)	(29)	(36)	(142)
Interest rates – 1% increase	(16)	5	(5)	(16)
Interest rates – 1% decrease	13	(18)	5	0
Equity/property yields – 1% rise	33	30	15	78
Embedded value of long-term operations at 31 December 2007				
As reported[16]	3,726	3,605	6,497	13,828
Discount rates – 1% increase	(386)	(129)	(534)	(1,049)
Interest rates – 1% increase[note i]	(29)	(120)	(95)	(244)
Interest rates – 1% decrease[note i]	2	17	113	132
Equity/property yields – 1% rise	234	58	405	697
Equity/property market values – 10% fall	(136)	(63)	(519)	(718)
Statutory minimum capital	315	59	8	382

Notes

i Asian operations

2008	Embedded value of long-term operations £m	Interest rates 1% increase £m	1% decrease £m
Asian operations			
Established markets	3,981	(115)	151
Taiwan*	(205)	126	(194)
Korea	338	(7)	6
Indonesia	314	(8)	10
Other	836	4	(9)
	5,264	–	(36)

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

	Embedded value at 31 Dec 2008 £m	1% increase in the starting bond rate £m	1% decrease in the starting bond rate £m
Taiwan	(205)	154	(165)

If it had been assumed in preparing the 2008 results for Taiwan that interest rates remained at the current level of around 1.4 per cent until 31 December 2009 and the progression period in bond yields was delayed by a year so as to end on 31 December 2019, there would have been a reduction in the Taiwan embedded value of £(74) million.

2007	Embedded value of long-term operations £m	Interest rates 1% increase £m	1% decrease £m
Asian operations			
Established markets	2,704	(77)	83
Taiwan*	(12)	67	(91)
Korea	304	(7)	7
Indonesia	180	(3)	2
Other	550	(9)	1
	3,726	(29)	2

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

	Embedded value at 31 Dec 2007 £m	1% increase in the starting bond rate £m	1% decrease in the starting bond rate £m
Taiwan	(12)	73	(57)

19 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 2008 (31 December 2007) and the new business contribution after the effect of encumbered capital for 2008 and 2007 to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 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).

	2008 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
New business profit for 2008				
As reported[5]	741	293	273	1,307
Maintenance expenses – 10% decrease	22	6	7	35
Lapse rates – 10% decrease	62	23	11	96
Mortality and morbidity – 5% decrease	27	6	(20)	13
Change representing effect on:				
Life business	27	6	–	33
Annuity business	–	–	(20)	(20)
Embedded value of long-term operations at 31 December 2008				
As reported[16]	5,264	4,339	4,919	14,522
Maintenance expenses – 10% decrease	92	45	36	173
Lapse rates – 10% decrease	194	177	80	451
Mortality and morbidity – 5% decrease	172	121	(71)	222
Change representing effect on:				
Life business	172	121	5	298
Annuity business	–	–	(76)	(76)

	2007 £m			
	Asian operations	US operations	UK insurance operations	Total long-term business operations
New business profit for 2007				
As reported[5]	643	285	277	1,205
Maintenance expenses – 10% decrease	20	6	8	34
Lapse rates – 10% decrease	62	19	8	89
Mortality and morbidity – 5% decrease	21	4	(14)	11
Change representing effect on:				
Life business	21	4	–	25
Annuity business	–	–	(14)	(14)
Embedded value of long-term operations at 31 December 2007				
As reported[16]	3,726	3,605	6,497	13,828
Maintenance expenses – 10% decrease	54	30	36	120
Lapse rates – 10% decrease	142	123	87	352
Mortality and morbidity – 5% decrease	98	74	(103)	69
Change representing effect on:				
Life business	98	74	9	181
Annuity business	–	–	(112)	(112)

20 Adoption of the principles of IFRIC 14 for accounting for pension schemes

To provide consistency with the basis applied for IFRS reporting, the EEV basis results reflect adoption of the principles of IFRIC 14 for accounting for pension schemes. The impact of the adoption is as follows:

	2008 £m			2007 £m		
	Previous basis	Effect of adoption	Revised basis	As published	Effect of adoption	After change
Operating profit from continuing operations based on longer-term investment returns	2,992	(31)	2,961	2,542	(12)	2,530
Short-term fluctuations in investment returns	(5,127)		(5,127)	174		174
Mark to market value movements on core borrowings	656		656	223		223
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	17	(32)	(15)	116	(121)	(5)
Effect of changes in economic assumptions and time value of cost of options and guarantees	(581)		(581)	748		748
(Loss) profit before tax	(2,043)	(63)	(2,106)	3,803	(133)	3,670
Tax credit (charge)	754	17	771	(961)	34	(927)
(Loss) profit after tax	(1,289)	(46)	(1,335)	2,842	(99)	2,743
Discontinued operations	–		–	241		241
Less: minority interests	(3)		(3)	(21)		(21)
(Loss) profit for the year	(1,292)	(46)	(1,338)	3,062	(99)	2,963
Other movements in reserves	1,694		1,694	(166)		(166)
Shareholders' equity at beginning of year	14,779	(179)	14,600	11,883	(80)	11,803
Shareholders' equity at end of year	15,181	(225)	14,956	14,779	(179)	14,600

The changes reflect the aggregate of those under IFRS, as shown in note I1 to the IFRS Financial Statements, and the shareholders' 10 per cent interest in the PAC with-profits element of the effect of the adoption of IFRIC 14 for accounting for pension schemes reflected under EEV reporting.

21 Intended sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan

On 20 February 2009, the Company announced that it had entered into an agreement to sell the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd of Taiwan for the nominal sum of NT$1. In addition, Prudential will invest £45 million to purchase a 9.95 per cent stake in China Life through a share placement. The business being transferred represents 94 per cent of Prudential's in-force liabilities in Taiwan and includes Prudential's legacy interest rate guaranteed products. The transfer is subject to regulatory approval.

After taking account of EEV shareholders' funds at 31 December 2008 of the business and restructuring and other costs the Group's EEV shareholders' equity is expected to increase by approximately £90 million.

21 Intended sale of legacy agency book and agency force in Taiwan to China Life Insurance of Taiwan continued

The movement in shareholders' EEV equity of the total Taiwan life business for 2008 comprised:

	£m
Operating profit based on longer-term investment returns from:	
New business	120
Business in force	(16)
Total	104
Short-term fluctuations in investment returns	(163)
Effect of changes in economic assumptions and time value of cost of options and guarantees	(185)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(3)
Loss before tax	(247)
Total tax	12
Minority interests	2
Loss for the financial year	(233)
Investment by parent company[note i]	93
Exchange and other reserve movements	(53)
Net movement	(193)
Shareholders' equity at 1 January 2008	(12)
Shareholders' equity at 31 December 2008	(205)

Note

i Comprising £66 million for solvency capital and £27 million for business development.