Notes on the EEV basis results

1 Basis of preparation of results

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

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

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

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

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

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

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

The EEV basis results for the 2008 and 2007 half years are unaudited. Except for the change in accounting policy to reflect the principles of IFRIC 14 for pension schemes, as explained in note 10, the 2007 full year results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2007. The supplement included an unqualified audit report from the auditors.

2 Methodology

Embedded value

Overview

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

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

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

Jackson debt securities

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 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.

3 Economic assumptions

a Deterministic assumptions

In most countries, the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on cash or fixed interest securities. Except in respect of the projected returns on 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 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.

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 6.0 per cent (half year 2007: 3.0 per cent to 5.8 per cent, full year 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 all periods for which results are prepared in this report.

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

The tables below summarise the principal financial assumptions:

Asian operations

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

	30 Jun 2007 %											
	China	Hong Kong notes iii, iv,v	India	Indonesia	Japan	Korea	Malaysia notes iv,v	Philippines	Singapore notes iv,v	Taiwan notes ii,v	Thailand	Vietnam
Risk discount rate:												
New business	12.0	6.5	16.5	17.5	5.3	10.1	9.7	16.5	7.1	8.6	13.75	16.5
In force	12.0	6.7	16.5	17.5	5.3	10.1	9.3	16.5	6.3	9.3	13.75	16.5
Expected long-term rate of inflation	4.0	2.25	5.5	6.5	0.0	2.75	3.0	5.5	1.75	2.25	3.75	5.5
Government bond yield	9.0	5.1	10.5	11.5	2.2	5.6	7.0	10.5	4.5	5.5	7.75	10.5

	31 Dec 2007 %											
	China	Hong Kong notes iii, iv,v	India	Indonesia	Japan	Korea	Malaysia notes iv,v	Philippines	Singapore notes iv,v	Taiwan notes ii,v	Thailand	Vietnam
Risk discount rate:												
New business	11.75	5.7	15.75	16.75	5.1	9.7	9.3	15.75	6.4	9.1	13.0	16.75
In force	11.75	6.0	15.75	16.75	5.1	9.7	9.1	15.75	6.8	9.8	13.0	16.75
Expected long-term rate of inflation	4.0	2.25	5.0	6.0	0.0	2.75	2.75	5.0	1.75	2.25	3.0	6.0
Government bond yield	8.25	4.1	9.25	10.25	2.0	5.8	6.5	9.25	4.25	5.5	6.75	10.25

3 Economic assumptions continued

	2008 % Asia total 30 Jun	2007 % Asia total 30 Jun	2007 % Asia total 31 Dec
Weighted risk discount rate[note i]			
New business	9.8	10.1	9.5
In force	8.8	8.7	8.7

Notes

Asian operations – economic assumptions

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 half year 2008, half year 2007 and full year 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.

The projections assume that in the average scenario, the current bond yields of around 2.7 per cent trend towards 5.5 per cent at 31 December 2013 (half year and full year 2007: around 2.5 per cent trend towards 5.5 per cent at 31 December 2013).

The projections for the Fund Earned Rate reflect the same approach as applied for half year and full year 2007 results with allowance made for the mix of assets in the fund, future investment strategy and further market depreciation of bonds held as a result of assumed future yield increases. The projections for the Fund Earned Rate alter for changes to these factors and the effects of movements in interest rates from period to period. After taking into account current bond yields, the assumption of the phased progression in bond yields and the factors described above, the average assumed Fund Earned Rate falls from 3.3 per cent for 2008 to 0.5 per cent in 2009 and remains below 3.3 per cent until 2012 (due to the depreciation of bond values as yields rise) and fluctuates around a target of 6.5 per cent after 2013.

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

iii The assumptions shown are for US dollar denominated business which comprises the 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:

	2008 % 30 Jun	2007 % 30 Jun	2007 % 31 Dec
Hong Kong	7.9	9.1	8.1
Malaysia	12.5	12.8	12.5
Singapore	9.3	9.3	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 half year 2008 and full year 2007, cash rates were used in setting the risk discount rates for Malaysia, Singapore, Taiwan and for Hong Kong dollar denominated business. For half year 2007, cash rates were used in setting the risk discount rates for these operations and for all Hong Kong business (ie. including US dollar denominated business).

US operations (Jackson)

	2008 % 30 Jun	2007 % 30 Jun	2007 % 31 Dec
Risk discount rate*:			
New business	6.9	7.9	7.0
In force	5.9	7.3	6.0
Expected long-term spread between earned rate and rate credited to policyholders for single premium deferred annuity business	1.75	1.75	1.75
US 10-year treasury bond rate at end of period	4.0	5.1	4.1
Pre-tax expected long-term nominal rate of return for US equities	8.0	9.1	8.1
Expected long-term rate of inflation	2.6	2.4	2.4

* The risk discount rates at 30 June 2008 for new business and business in force for US operations reflect weighted rates based on underlying rates of 8.1 per cent for variable annuity business and 4.8 per cent for other business.

3 Economic assumptions continued

UK insurance operations

	2008 % 30 Jun	2007 % 30 Jun	2007 % 31 Dec
Risk discount rate:notes i and iv			
New business	8.7	8.7	7.3
In force	8.6	8.6	7.85
Pre-tax expected long-term nominal rates of investment return:			
UK equities	9.2	9.3	8.55
Overseas equities	8.0 to 10.2	9.1 to 10.6	8.1 to 10.2
Property	7.4	7.8	6.8
Gilts	5.2	5.3	4.55
Corporate bonds – with-profits fundsnotes ii, iv and v	6.9	6.0	6.0
– other business (excluding annuities)	6.9	6.0	6.25
Expected long-term rate of inflation	4.1	3.1	3.2
Post-tax expected long-term nominal rate of return for the PAC with-profits fund:			
Pension business (where no tax applies)	8.3	8.3	7.85
Life business	7.4	7.4	6.9
Pre-tax expected long-term nominal rate of return for annuity business:note iii			
Fixed annuities	6.0 to 6.2	5.6 to 5.7	5.4 to 5.6
Linked annuities	5.6 to 5.9	5.2 to 5.4	5.0 to 5.2

Notes

i The risk discount rates for new business and business in force for UK insurance operations reflect weighted rates based on the type of business.

ii To take account of the current exceptional fixed interest market conditions, the assumed long-term rate of return for corporate bonds for half year 2008 for with-profits business has been determined by reference to observed credit spreads at 31 December 2007 rather than 30 June 2008.

iii The pre-tax rates of return for annuity business are based on the gross redemption yield on the backing assets net of a best estimate allowance for future defaults. The range of rates reflects the underlying assets of the portfolios for Prudential Retirement Income Limited (PRIL) and Prudential Annuities Limited, which is a subsidiary of the PAC with-profits fund.

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 the first half of 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 risk discount rate 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. The allowance for credit risk at 30 June 2008 is made up of:

a sixteen bps 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 PRIL's asset portfolio.

b eight bps in respect of long-term credit risk premium; this is derived by applying the 95th worst percentile from Moody's data from 1970 onwards, to PRIL's asset portfolio.

c nineteen bps in respect of credit contingency reserve; this is taken to be 25 per cent of the increase in credit spreads over swaps that has occurred since 31 December 2006. The 25 per cent proportion was calculated at 31 December 2007 as being financially equivalent to a one notch downgrading of all of PRIL's assets, the notches being AAA, AA, A, BBB+, BBB, BBB-, BB.

Pillar I reserves are calculated using a similar allowance for credit risk. The credit contingency reserve is intended to allow for the short-term increase in credit spreads, and it is assumed for EEV reporting that it will be released in the short term, so having no cost of capital.

The overall allowance for credit risk is prudent by comparison with historic rates of default. The resulting liquidity premium is 101 bps over gilts for fixed annuities and 60 bps over gilts for inflation-linked annuities.

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

b Stochastic assumptions

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

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

3 Economic assumptions continued

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 ranges from 18 per cent to 25 per cent across all reporting periods and the volatility of government bond yields ranges from 1.2 per cent to 2.5 per cent (half year 2007: 1.4 per cent to 2.5 per cent, full year 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 regime-switching log-normal model with parameters determined by reference to historical data. The volatility of equity fund returns ranges from 18.6 per cent to 28.1 per cent (half year 2007: 19.2 per cent to 28.6 per cent, full year 2007: 18.6 per cent to 28.1 per cent) depending on risk class, and the standard deviation of bond returns ranges from 1.4 per cent to 1.6 per cent (half year 2007: 1.4 per cent to 2.0 per cent, full year 2007: 1.4 per cent to 1.7 per cent).

UK insurance operations

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

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

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

	%
Equities:	
UK	18.0
Overseas	16.0
Property	15.0

4 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.

— 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.
— 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.

5 Margins on new business premiums

	Period ended 30 Jun 2008 £m					2008 %	
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
Asian operations	1,037	623	727	3,864	336	46	8.7
US operations	3,453	11	356	3,537	137	38	3.9
UK insurance operations	3,125	117	430	3,585	129	30	3.6
Total	7,615	751	1,513	10,986	602	40	5.5

	Period ended 30 Jun 2007 £m (CER)					2007 %	
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
Asian operations	828	556	639	3,397	291	46	8.6
US operations	3,418	9	351	3,483	144	41	4.1
UK insurance operations	2,441	119	363	2,905	108	30	3.7
Total	6,687	684	1,353	9,785	543	40	5.5

	Period ended 30 Jun 2007 £m (RER)					2007 %	
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
Asian operations	784	541	619	3,286	282	46	8.6
US operations	3,425	9	352	3,490	144	41	4.1
UK insurance operations	2,441	119	363	2,905	108	30	3.7
Total	6,650	669	1,334	9,681	534	40	5.5

	Year ended 31 Dec 2007 £m (RER)					2007 %	
	New business premiums		Annual premium and contribution equivalents	Present value of new business premiums	Pre-tax new business contribution	New business margin	
	Single	Regular	(APE)	(PVNBP)		(APE)	(PVNBP)
Asian operations	1,820	1,124	1,306	7,007	653	50	9.3
US operations	6,515	19	671	6,666	285	42	4.3
UK insurance operations	6,632	234	897	7,629	277	31	3.6
Total	14,967	1,377	2,874	21,302	1,215	42	5.7

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). APEs are calculated as the aggregate of regular new business amounts and one-tenth of single new business amounts. PVNBPs are calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

The table of new business premiums and margins above excludes SAIF Department of Work and Pensions rebate premiums.

In determining the EEV basis value of new business written in the period the policies incept, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

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

Notes on the EEV basis results
continued

6 Short-term fluctuations in investments returns

	2008 £m Half year	2007 £m Half year	2007 £m Full year
Insurance operations:			
Asia[note i]	(536)	54	226
US[note ii]	(297)	68	(9)
UK[note iii]	(959)	98	(42)
Other[note iv]	(157)	21	(1)
Total	(1,949)	241	174

Notes

i The short-term fluctuations in investment returns for Asian operations of £(536) million for half year 2008 principally arose in Vietnam of £(151) million, Singapore of £(103) million, Taiwan of £(84) million and Hong Kong of £(59) million. For Vietnam, the negative short-term fluctuation reflects the substantial falls in equity and bond markets. The short-term fluctuation in Taiwan principally reflects the equity market fall and a £29 million value reduction for an investment in a CDO fund. For Singapore and Hong Kong, the short-term fluctuations reflect the effect of equity market falls on unit-linked and with-profit 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 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.

ii 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 Half year	2007 £m Half year	2007 £m Full year
Realised impairment losses:			
Actual	(108)	(19)	(78)
Less: Risk margin charge included in operating profit	23	24	48
	(85)	5	(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*	(138)	30	(16)
Actual less longer-term return on equity-type securities	(43)	45	51
Other	(31)	(12)	(14)
	(297)	68	(9)

* This adjustment arises due to the market returns being lower or higher than the assumed longer-term rate of return. This gives rise to lower or higher than expected period 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 half year 2008 market returns were (9.1) per cent compared to the assumed longer-term rate of return of 3.8 per cent.

iii The charge for short-term fluctuations in investment returns for UK insurance operations comprise £855 million relating to the PAC with-profits fund and £104 million relating to shareholder-backed business. For with-profits business, the short-term fluctuation 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. For half year 2008 the actual investment return was (6.8) per cent compared to a gross long-term assumed rate for the first six months of 4.1 per cent.

iv The short-term fluctuations for Other are explained in note D(i) in the IFRS basis financial statements contained in this announcement.

7 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:

	Half year 2008 £m			Half year 2007 £m			Full year 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	Change in economic assumptions	Change in time value of cost of options and guarantees	Total
Asian operations[note i]	(120)	(14)	(134)	18	(1)	17	201	9	210
US operations[note ii]	23	2	25	(46)	8	(38)	81	8	89
UK insurance operations[note iii]	(78)	(2)	(80)	281	15	296	466	(17)	449
Total	(175)	(14)	(189)	253	22	275	748	0	748

Notes

i The effect of changes in economic assumptions for Asian operations of a charge of £(120) million for half year 2008 arises principally in Taiwan of £(87) million, reflecting the increased cost of a higher economic capital requirement, which results from an increased weighting of the projected asset mix toward bonds with a longer duration and a resulting impact on volatility of returns.

ii The effect of changes in economic assumptions for US operations of a credit of £23 million for half year 2008 principally reflect a change in assumption to allow for the widening of credit spreads during the first half of 2008. The higher credit spreads allow for higher reinvestment and credited rates over time, maintaining spread, but reducing cost of guarantees as the credited rates move further away from minimum guaranteed levels.

iii The effect of changes in economic assumptions for UK insurance operations for half year 2008 reflects the maintenance of credit spreads as described in note 3a(iv) for the PAC with-profits fund. The charge of £(78) million reflects movements in assumed fund earned rates and risk discount rates, principally arising from the 0.65 per cent increase in gilt rates and other minor adjustments.

8 Taiwan – effect of altered economic assumptions and sensitivity of results to future market conditions

For the half year 2008 results, as explained in note 3a(ii), the expected long-term bond yield has been maintained at 5.5 per cent to be achieved by 31 December 2013.

The sensitivity of the embedded value at 30 June 2008 of the Taiwan operation to altered economic assumptions and future market conditions to:

a a one per cent increase or decrease in the projected long-term bond yield (including all consequential changes to investment returns for all classes, market values of fixed interest assets and risk discount rates), is an increase (decrease) of £58 million and £(96) million respectively (half year 2007: £83 million and £(134) million, full year 2007: £67 million and £(91) million); and

b a one per cent increase or decrease in the starting bond rate for the progression to the assumed long-term rate is an increase (decrease) of £94 million and £(71) million respectively (half year 2007: £92 million and £(100) million, full year 2007: £73 million and £(57) million).

If it had been assumed in preparing the half year 2008 results that interest rates remained at the current level of around 2.7 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 2014, there would have been a reduction in the Taiwan embedded value of £(61) million.

9 Holding company net borrowings at market value

Holding company net borrowings at market value comprise:

	2008 £m 30 Jun	2007 £m RER 30 Jun	2007 £m RER 31 Dec
Holding company borrowings:			
IFRS basis	(2,401)	(2,289)	(2,367)
Mark to market value adjustment	201	(68)	38
EEV basis	(2,200)	(2,357)	(2,329)
Holding company* cash and short-term investments	1,498	1,546	1,456
Holding company net borrowings	(702)	(811)	(873)

* Including central finance subsidiaries.

Financial statements

10 Adoption of altered policy for pension schemes to reflect the principles of IFRIC 14

To provide consistency, the EEV basis results reflect the altered IFRS policy for pension schemes to reflect the principles of IFRIC 14. The impact of the change is as follows:

	Half year 2008 £m			Half year 2007 £m			Full year 2007 £m		
	Previous basis	Effect of change	Revised basis	As published	Effect of change	After change	As published	Effect of change	After change
Operating profit from continuing operations based on longer-term investment returns	1,448	(18)	1,430	1,326	(8)	1,318	2,542	(12)	2,530
Short-term fluctuations in investment returns	(1,949)		(1,949)	241		241	174		174
Mark to market value movements on core borrowings	171		171	113		113	223		223
Shareholders' share of actuarial gains and losses on defined benefit pension schemes	(209)	111	(98)	125	(86)	39	116	(121)	(5)
Effect of changes in economic assumptions and time value of cost of options and guarantees	(189)		(189)	275		275	748		748
(Loss) profit before tax	(728)	93	(635)	2,080	(94)	1,986	3,803	(133)	3,670
Tax	188	(26)	162	(545)	24	(521)	(961)	34	(927)
(Loss) profit after tax	(540)	67	(473)	1,535	(70)	1,465	2,842	(99)	2,743
Discontinued operations				241		241	241		241
Less minority interests	(2)		(2)	(1)		(1)	(21)		(21)
(Loss) profit for the period	(542)	67	(475)	1,775	(70)	1,705	3,062	(99)	2,963
Other movements in reserves	(148)		(148)	(246)		(246)	(166)		(166)
Shareholders' equity at the beginning of the period	14,779	(179)	14,600	11,883	(80)	11,803	11,883	(80)	11,803
Shareholders' equity at the end of the period	14,089	(112)	13,977	13,412	(150)	13,262	14,779	(179)	14,600

The changes reflect the aggregate of those under IFRS, as shown in note O to the Group IFRS financial statements, and the shareholders' 10 per cent interest in the PAC with-profits element of the effect of the change in accounting policy reflected under EEV reporting.