

## Notes on the EEV basis results continued

### 8 Analysis of movement in free surplus

Free surplus is the excess of the net worth over 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.

	Half year 2013 £m		
	Long-term business note 13	Asset management and UK general insurance commission note (iii)	Free surplus of long-term business, asset management and UK general insurance commission
<b>Long-term business and asset management operations</b> <sup>note (i)</sup>			
Underlying movement:			
Investment in new business <sup>note (ii)</sup>	(396)	–	(396)
Business in force:			
Expected in-force cash flows (including expected return on net assets)	1,106	239	1,345
Effects of changes in operating assumptions, operating experience variances and other operating items	203	–	203
	913	239	1,152
Changes in non-operating items <sup>note (iv)</sup>	(287)	(7)	(294)
Increase in EEV assumed level of required capital <sup>notes 1(b)(ii) and 13</sup>	(59)	–	(59)
Loss attaching to held for sale Japan Life business <sup>note 7</sup>	(56)	–	(56)
	511	232	743
Net cash flows to parent company <sup>note (v)</sup>	(745)	(99)	(844)
Bancassurance agreement and purchase of Thanachart Life <sup>notes 4 and 13</sup>	365	–	365
Exchange movements, timing differences and other items <sup>note (vi)</sup>	190	1	191
<b>Net movement in free surplus</b>	321	134	455
Balance at 1 January 2013	2,957	732	3,689
<b>Balance at 30 June 2013</b>	3,278	866	4,144
Representing:			
Asia operations	1,359	217	1,576
US operations	891	127	1,018
UK operations	1,028	522	1,550
	3,278	866	4,144
Balance at 1 January 2013			
Representing:			
Asia operations	974	207	1,181
US operations	1,211	108	1,319
UK operations	772	417	1,189
	2,957	732	3,689

#### Notes

- (i) All figures are shown net of tax.
- (ii) Free surplus invested in new business is for the effects of setting aside required capital and incurring acquisition costs.
- (iii) For the purposes of this analysis, free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis shareholders' equity.
- (iv) Changes in non-operating items represent short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations. Short-term fluctuations in investment returns primarily reflect temporary market movements on the portfolio of investments held by the Group's shareholder-backed operations.
- (v) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(vi) Exchange movements, timing differences and other items represent:

	Half year 2013 £m		
	Long-term business	Asset management and UK general insurance commission	Total
Exchange movements <sup>note13</sup>	101	8	109
Mark to market value movements on Jackson assets backing surplus and required capital <sup>note13</sup>	(39)	–	(39)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes <sup>note13</sup>	(7)	(5)	(12)
Other <sup>note(vii)</sup>	135	(2)	133
	190	1	191

(vii) Other primarily reflects the effect of timing differences, partly offset by the repayment of contingent loan funding, as shown in note 13(ii), together with intra-group loans, and other non-cash items.

### 9 Net core structural borrowings of shareholder-financed operations

	30 Jun 2013 £m			30 Jun 2012 £m			31 Dec 2012 £m		
	IFRS basis	Mark to market value adjustment note	EEV basis at market value	IFRS basis	Mark to market value adjustment note	EEV basis at market value	IFRS basis	Mark to market value adjustment note	EEV basis at market value
Holding company* cash and short-term investments	(1,490)	–	(1,490)	(1,222)	–	(1,222)	(1,380)	–	(1,380)
Core structural borrowings – central funds	3,710	360	4,070	3,187	293	3,480	3,126	536	3,662
Holding company net borrowings	2,220	360	2,580	1,965	293	2,258	1,746	536	2,282
Core structural borrowings – Prudential Capital	275	–	275	250	–	250	275	–	275
Core structural borrowings – Jackson	164	25	189	159	26	185	153	43	196
Net core structural borrowings of shareholder-financed operations	2,659	385	3,044	2,374	319	2,693	2,174	579	2,753

\* Including central finance subsidiaries.

#### Note

The movement in the mark to market value adjustment represents:

	2013 £m		2012 £m	
	Half year	Half year	Half year	Full year
Mark to market movement in balance sheet:				
Beginning of period			579	204
Change reflected in:				
Income statement			(203)	113
Foreign exchange effects			9	(5)
End of period			385	319

In January 2013, the Company issued US\$700 million (£462 million at 30 June 2013 closing exchange rate) perpetual subordinated capital securities.