T: Other borrowings

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Operational borrowings attributable to shareholder-financed operations note (i)			
Borrowings in respect of short-term fixed income securities programmes note (ii)	2,422	2,568	2,084
Non-recourse borrowings of US operations	20	20	20
Other borrowings note (iii)	88	206	141
Total	2,530	2,794	2,245
Borrowings attributable to with-profits operations			
Non-recourse borrowings of consolidated investment funds	727	682	759
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc	100	100	100
Other borrowings (predominantly obligations under finance leases)	97	113	109
Total	924	895	968

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note B.

Notes

(i) In addition to the debt listed above, £200 million floating rate notes were issued by Prudential plc in April 2013 which will mature in October 2013. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.

(ii) In January 2013 the Company repaid on maturity, £250 million medium term notes included within borrowings in respect of short-term fixed income securities in the table above.

(iii) Other borrowings mainly include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

U: Defined benefit pension schemes

The Group asset/liability in respect of defined benefit pension schemes is as follows:

Summary Group position

	2013 £m			2012 £m	
	PSPS	Other schemes	30 Jun	30 Jun	31 Dec
Underlying economic surplus (deficit) note (ii)	939	(45)	894	1,425	1,138
Less: unrecognised surplus and adjustment for obligation for deficit funding note (ii)	(821)	–	(821)	(1,249)	(1,010)
Economic surplus (deficit) (including investment in Prudential insurance policies) note (ii)	118	(45)	73	176	128
Attributable to:					
PAC with-profits fund	83	(41)	42	98	78
Shareholder-backed operations	35	(4)	31	78	50
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	–	(172)	(172)	(169)	(169)
IAS 19 pension asset (liability) on the Group statement of financial position*	118	(217)	(99)	7	(41)

* At 30 June 2013, the PSPS' pension asset of £118 million (30 June 2012: £167 million; 31 December 2012: £164 million) and the other schemes' pension liability of £217 million (30 June 2012: £160 million; 31 December 2012: £205 million) were included within 'Other debtors' and 'Provisions', respectively on the condensed consolidated statement of financial position.

Notes on the IFRS basis results continued

U: Defined benefit pension schemes continued

The Group's businesses operate a number of pension schemes. The specific features of these plans vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS), which accounts for 85 per cent (30 June 2012: 87 per cent; 31 December 2012: 86 per cent) of the underlying scheme liabilities of the Group defined benefit schemes.

The Group also operates two smaller defined benefit schemes for UK employees in respect of Scottish Amicable and M&G. For all three schemes, the projected unit method was used for the most recent full actuarial valuations. There are also small defined benefit schemes in Taiwan with a negligible deficit.

Triennial actuarial valuations

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuation every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The last completed actuarial valuation of PSPS was as at 5 April 2011. This valuation was finalised in the first half of 2012 and demonstrated the scheme to be 111 per cent funded by reference to the Scheme Solvency Target that forms the basis of the scheme's funding objective. As a result of this valuation, future contributions into the scheme have been reduced to the minimum level of contributions required under the scheme rules effective from July 2012.

Excluding expenses, the contributions are now payable at approximately £6 million per annum. The contributions are only for ongoing service of current employees that are active members of the scheme. No deficit type funding is required. Deficit funding for PSPS, where applicable, as applied prior to 2012, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed consideration in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

The last completed actuarial valuation of the Scottish Amicable Pension Scheme (SAPS) was as at 31 March 2011. This valuation was finalised in the second half of 2012 and demonstrated the scheme to be 85 per cent funded. Based on this valuation, it was agreed with the Trustees that the existing level of deficit funding of £13.1 million per annum continues to be paid into the scheme over the next six years, to eliminate the actuarial deficit.

The last completed actuarial valuation of the M&G pension scheme was as at 31 December 2011. This valuation was finalised in the second half of 2012 and demonstrated the scheme to be 83 per cent funded. Based on this valuation, deficit funding amounts designed to eliminate the actuarial deficit over a three-year period are being made from January 2013 of £18.6 million per annum for the first two years and £9.3 million in the third year.

Summary economic and IAS 19 financial positions

Under the IAS 19 'Employee Benefits' valuation basis, the Group applies IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Under IFRIC 14, a surplus is only recognised to the extent that the Company is able to access the surplus either through an unconditional right of refund to the surplus or through reduced future contributions relating to ongoing service, which have been substantively enacted or contractually agreed. Further, the IFRS financial position recorded, reflects the higher of any underlying IAS 19 deficit and any obligation for committed deficit funding where applicable. For PSPS, the Group does not have an unconditional right of refund to any surplus of the scheme.

The underlying IAS 19 surplus for PSPS at 30 June 2013 was £939 million. Following the finalisation of the 5 April 2011 triennial valuation, the Trustees agreed that additional deficit type funding would no longer be necessary. Furthermore, the level of contributions for ongoing service of current employees was reduced to the minimum level required by the scheme rules and is now lower than actuarial cost of service. As a consequence, a portion of the surplus, being £118 million, is now recognised as recoverable. The £118 million represents the present value of the economic benefit to the Company from the reductions to future ongoing contributions to the scheme. Accordingly, a surplus of £118 million gross of deferred tax was recognised at 30 June 2013. Of this amount, £83 million was allocated to the PAC with-profits fund and £35 million was allocated to the shareholders' fund.

The IAS 19 deficit of the Scottish Amicable Pension Scheme at 30 June 2013 was a deficit of £82 million (30 June 2012: deficit of £35 million; 31 December 2012: deficit of £74 million) and has been allocated approximately 50 per cent to the PAC with-profits fund and 50 per cent to the shareholders' fund.

The IAS 19 surplus of the M&G pension scheme on an economic basis at 30 June 2013 was a surplus of £37 million (30 June 2012: surplus of £44 million; 31 December 2012: surplus of £38 million) and is wholly attributable to shareholders. The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. As at 30 June 2013, the M&G pension scheme has invested £172 million in Prudential insurance policies (30 June 2012: £169 million; 31 December 2012: £169 million). After excluding these investments that are offset against liabilities to policyholders, the IAS 19 basis position of the M&G pension scheme is a deficit of £135 million (30 June 2012: deficit of £125 million; 31 December 2012: deficit of £131 million).

i Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the period ended 30 June 2013 were as follows:

	2013 %	2012 %	
	30 Jun	30 Jun	31 Dec
Discount rate*	4.6	4.6	4.4
Rate of increase in salaries	3.2	2.6	2.7
Rate of inflation:†			
Retail Prices Index (RPI)	3.2	2.6	2.7
Consumer Prices Index (CPI)	2.2	1.6	2.0
Rate of increase of pensions in payment for inflation:			
Guaranteed (maximum 5%)	2.5	2.5	2.5
Guaranteed (maximum 2.5%)‡	2.5	2.5	2.5
Discretionary	2.5	2.5	2.5

* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable, to allow for the difference in duration between the index and the pension liabilities.
† The rate of inflation reflects the long-term assumption for the UK RPI or CPI depending on the tranche of the schemes.
‡ The rates of 2.5 per cent are those for PSPS. Assumed rates of increase of pensions in payments for inflation for all other schemes are 3.2 per cent in 2013 (30 June 2012: 2.6 per cent; 31 December 2012: 2.7 per cent).

The calculations are based on current actuarially calculated mortality estimates with a specific allowance made for future improvements in mortality. The specific allowance made is in line with a custom calibration and has been updated in half year 2013 to reflect the 2011 mortality model from the Continuous Mortality Investigation Bureau of the Institute and Faculty of Actuaries (CMI).

The tables used for PSPS immediate annuities in payment at 30 June 2013 were:

Male: 112.0 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 108.5 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2011 mortality model, with a long-term mortality improvement rate of 1.25 per cent per annum.

The tables used for PSPS immediate annuities in payment at 30 June 2012 and 31 December 2012 were:

Male: 108.6 per cent PNMA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.75 per cent per annum; and
Female: 103.4 per cent PNFA00 with improvements in line with a custom calibration of the CMI's 2009 mortality model, with a long-term mortality improvement rate of 1.00 per cent per annum.

Using external actuarial advice provided by the independent scheme actuaries being Towers Watson for the valuation of PSPS, Xafinity Consulting for SAPS and Aon Hewitt Limited for the M&G scheme, the most recent full valuations have been updated to 30 June 2013, applying the principles prescribed by IAS 19.

Notes on the IFRS basis results continued

U: Defined benefit pension schemes continued

ii Estimated pension schemes' surpluses and deficits – economic basis

Movements on the surpluses and deficits of the Group's defined benefit pension schemes (determined on the economic basis) are as follows, with the effect of the application of IFRIC 14 being shown separately:

	Half year 2013 £m				
		(Charge) credit to income statement or other comprehensive income note (a)			
	Surplus (deficit) in schemes at 1 January 2013	Operating results (based on longer-term investment returns)	Actuarial and other gains and losses note (a)(v)	Contributions paid	Surplus (deficit) in schemes at 30 June 2013 note (b)
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus (deficit)	1,138	5	(278)	29	894
Less: amount attributable to PAC with-profits fund	(787)	(8)	183	(8)	(620)
Shareholders' share:					
Gross of tax surplus (deficit)	351	(3)	(95)	21	274
Related tax	(81)	1	22	(5)	(63)
Net of shareholders' tax	270	(2)	(73)	16	211
Effect of IFRIC 14					
Derecognition of surplus and set up of additional funding obligation	(1,010)	(18)	207	–	(821)
Less: amount attributable to PAC with-profits fund	709	13	(144)	–	578
Shareholders' share:					
Gross of tax (deficit) surplus	(301)	(5)	63	–	(243)
Related tax	69	1	(14)	–	56
Net of shareholders' tax	(232)	(4)	49	–	(187)
With the effect of IFRIC 14					
Surplus (deficit)	128	(13)	(71)	29	73
Less: amount attributable to PAC with-profits fund	(78)	5	39	(8)	(42)
Shareholders' share:					
Gross of tax surplus (deficit)	50	(8)	(32)	21	31
Related tax	(12)	2	8	(5)	(7)
Net of shareholders' tax	38	(6)	(24)	16	24

Notes

(a) (Charge) credit to the income statement or other comprehensive income

The components of the credit (charge) for the pension cost and actuarial and other gains and losses (comprising amounts attributable to the PAC with-profits fund and shareholder-backed operations) are as follows:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Pension cost – (charge) credit to income statement			
Current service cost	(14)	(15)	(29)
Past service cost:			
Exceptional discretionary pension increase for PSPS in 2012 note (i)	–	(106)	(106)
Other	(3)	–	–
Administration cost paid out by the schemes	(2)	(2)	(3)
Net interest on net defined benefit liability (asset) – economic basis	24	35	69
Total credit (charge) without the effect of IFRIC 14	5	(88)	(69)
Effect of the application of IFRIC 14	(18)	70	39
Pension cost – economic basis table above and note (ii)	(13)	(18)	(30)
Adjustment for investments in Prudential insurance policies note (iv)	(7)	(6)	(8)
Pension cost – IAS 19 basis (pre-tax and pre-allocation to PAC with-profits fund)	(20)	(24)	(38)
Actuarial and other gains and losses – other comprehensive income			
Return on the scheme assets less amount included in interest income	(304)	(81)	(131)
Gains (losses) on changes of assumptions for plan liabilities	27	10	(273)
Experience losses on scheme liabilities	(1)	(4)	(4)
Total charge without the effect of IFRIC 14	(278)	(75)	(408)
Effect of the application of IFRIC 14	207	288	558
Actuarial and other gains and losses – economic basis table above and notes (iii), (v)	(71)	213	150
Adjustment for investments in Prudential insurance policies notes (iv), (v)	4	(1)	(5)
Actuarial and other gains and losses – IAS 19 basis (pre-tax and pre-allocation to PAC with-profits fund) note (v)	(67)	212	145

* The presentation of the 2012 comparatives in the table above has been altered for the application of the amended IAS 19 principally for the presentation of actuarial gains and losses in other comprehensive income rather than the income statement as described in note B.

Notes

(i) Exceptional discretionary pension increase for PSPS in 2012
During the first half of 2012, an exceptional discretionary increase to pensions in payment of PSPS was awarded which resulted in a past service cost of £106 million. As the PSPS scheme surplus is substantially not recognised for accounting purposes, this item had no impact on the Group's results.

(ii) Consistent with the derecognition of a substantial portion of the Company's interest in the underlying IAS 19 surplus of PSPS, the charge to operating profit based on longer-term investment returns for PSPS reflects the cash cost of contributions for ongoing service of active members and expenses (30 June 2013: £6 million; 30 June 2012: £10 million; 31 December 2012: £17 million).

(iii) The net (charge) credit for actuarial and other gains and losses is recorded within the statement of other comprehensive income.
The half year 2013 actuarial losses without the effect of IFRIC 14 primarily reflect the investment return of PSPS being lower than the interest income included in the pension cost. After the derecognition of a substantial portion of PSPS surplus under IFRIC 14, the actuarial losses primarily reflect the impact of assumption changes on the other schemes' liabilities and the movement in the amount of surplus recognised in PSPS as described above.

(iv) The adjustments for investments in Prudential insurance policies are consolidation adjustments with no impact to operating results.

(v) The amounts for actuarial and other gains and losses presented within the condensed consolidated statement of comprehensive income comprise the following:

	2013 £m	2012* £m	
	Half year	Half year	Full year
Actuarial and other gains and losses – economic basis			
Total (Pre-allocation to the PAC with-profits funds):			
Gross of tax	(71)	213	150
Related tax	11	(29)	(18)
	(60)	184	132
Amount attributable to the PAC with-profits funds (with offsetting effect to movement in unallocated surplus):			
Gross of tax	(39)	126	100
Related tax	3	(8)	(6)
	(36)	118	94
Shareholders' share of actuarial and other gains and losses (after allocation to PAC with-profits funds) – economic basis: table above			
Gross of tax	(32)	87	50
Related tax	8	(21)	(12)
	(24)	66	38
Consolidation adjustment for investments in Prudential insurance policies by a Group pension scheme:			
Gross of tax	4	(1)	(5)
Related tax	(1)	–	1
	3	(1)	(4)
Shareholders' share of actuarial and other gains and losses, net of related tax – IAS 19 basis (as recognised in other comprehensive income)	(21)	65	34

Notes on the IFRS basis results continued

U: Defined benefit pension schemes continued

(b) Underlying investments and liabilities of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plan's net assets at 30 June 2013 comprise the following investments and liabilities:

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Equities	409	512	364
Bonds	5,696	5,852	5,858
Properties	339	327	330
Other assets	506	485	645
Total value of assets	6,950	7,176	7,197
Present value of benefit obligations	(6,056)	(5,751)	(6,059)
	894	1,425	1,138
Effect of the application of IFRIC 14 for pension schemes:			
Derecognition of PSPS surplus	(821)	(1,247)	(1,010)
Adjust for additional funding for PSPS	–	(2)	–
Pre-tax surplus	73	176	128

iii Sensitivity of the pension scheme liabilities to key variables

The total underlying Group pension scheme liabilities of £6,056 million (30 June 2012: £5,751 million; 31 December 2012: £6,059 million) comprise £5,158 million (30 June 2012: £5,007 million; 31 December 2012: £5,226 million) for PSPS and £898 million (30 June 2012: £744 million; 31 December 2012: £833 million) for the other schemes. The table below shows the sensitivity of the underlying PSPS and the other scheme liabilities at 30 June 2013, 30 June 2012 and 31 December 2012 to changes in discount rate, inflation rates and mortality rates.

	Assumption applied				Impact of sensitivity on scheme liabilities on IAS 19 basis			
	2013	2012				2013	2012	
	Half year	Half year	Full year	Sensitivity change in assumption		Half year	Half year	Full year
Discount rate	4.6%	4.6%	4.4%	Decrease by 0.2%	Increase in scheme liabilities by:			
					PSPS	3.4%	3.0%	3.3%
					Other schemes	5.0%	4.8%	4.9%
Discount rate	4.6%	4.6%	4.4%	Increase by 0.2%	Decrease in scheme liabilities by:			
					PSPS	3.2%	2.9%	3.1%
					Other schemes	4.7%	4.5%	4.6%
Rate of inflation	RPI: 3.2% CPI: 2.2%	RPI: 2.6% CPI: 1.6%	RPI: 2.7% CPI: 2.0%	RPI: Decrease by 0.2% CPI: Decrease by 0.2% with consequent reduction in salary increases	Decrease in scheme liabilities by:			
					PSPS	0.7%	1.5%	0.6%
					Other schemes	4.3%	4.3%	4.3%
Mortality rate				Increase life expectancy by 1 year	Increase in scheme liabilities by:			
					PSPS	2.6%	2.7%	2.6%
					Other schemes	2.5%	2.3%	2.4%

The sensitivity of the underlying pension scheme liabilities to changes in discount, inflation and mortality rates as shown above does not directly equate to the impact on shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in financial position of the PSPS and Scottish Amicable schemes to the PAC with-profits fund as described above.

The sensitivity to the changes in the key variables as shown in the table above has no significant impact on the pension costs included in the Group's operating results. This is due to the pension costs charged in each of the periods presented being derived largely from market conditions at the beginning of the period. After applying IFRIC 14 and to the extent attributable to shareholders, any residual impact from the changes to these variables is reflected as actuarial gains and losses on defined benefit pension schemes as other comprehensive income.