

## Notes on the EEV basis results continued

## 2 Analysis of new business contribution continued

	Full year 2012						
	New business premiums		Annual premium and contribution equivalents £m	Present value of new business premiums £m	Pre-tax new business contribution £m	New business margin	
	Single £m	Regular £m				APE %	PVNBP %
Asia operations	1,568	1,740	1,897	10,544	1,266	67	12.0
US operations	14,504	12	1,462	14,600	873	60	6.0
UK insurance operations	6,286	207	836	7,311	313	37	4.3
Total	22,358	1,959	4,195	32,455	2,452	58	7.6

	New business contribution £m		
	Half year 2013	Half year 2012	Full year 2012
Asia operations:			
China	17	14	26
Hong Kong	162	101	210
India	10	10	19
Indonesia	228	179	476
Korea	19	19	26
Taiwan	16	17	48
Other	207	207	461
Total Asia operations	659	547	1,266

## 3 Operating profit from business in force

## (i) Group summary

	Half year 2013 £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total
Unwind of discount and other expected returns	400	287	267	954
Effect of changes in operating assumptions	(13)	70	–	57
Experience variances and other items	33	180	7	220
Total	420	537	274	1,231

	Half year 2012* £m			
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	Total
Unwind of discount and other expected returns	318	198	245	761
Effect of changes in operating assumptions	(3)	35	43	75
Experience variances and other items	12	130	50	192
Total	327	363	338	1,028

\* As adjusted for the effect of the Japan Life business sale agreement - see note 1.

	Full year 2012* £m			Total
	Asia operations note (ii)	US operations note (iii)	UK insurance operations note (iv)	
Unwind of discount and other expected returns	595	412	482	1,489
Effect of changes in operating assumptions	22	35	87	144
Experience variances and other items	75	290	(16)	349
<b>Total</b>	<b>692</b>	<b>737</b>	<b>553</b>	<b>1,982</b>

\* As adjusted for the effect of the Japan Life business sale agreement - see note 1.

## (ii) Asia operations

	2013 £m	2012* £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns <sup>note(a)</sup>	400	318	595
Effect of changes in operating assumptions:			
Mortality and morbidity <sup>note(b)</sup>	4	2	79
Persistency and withdrawals <sup>note(c)</sup>	(6)	-	(24)
Expense <sup>note(d)</sup>	2	-	(45)
Other	(13)	(5)	12
	(13)	(3)	22
Experience variance and other items:			
Mortality and morbidity <sup>note(e)</sup>	29	34	57
Persistency and withdrawals <sup>note(f)</sup>	(4)	(14)	52
Expense <sup>note(g)</sup>	(15)	(25)	(30)
Other	23	17	(4)
	33	12	75
<b>Total Asia operations</b>	<b>420</b>	<b>327</b>	<b>692</b>

\* As adjusted for the effect of the Japan Life business sale agreement - see note 1.

### Notes

- (a) The increase in unwind of discount and other expected returns of £82 million from £318 million in half year 2012 to £400 million in half year 2013 mainly reflects the £68 million effect of the growth in the opening in-force value (adjusted for assumption changes) on which the discount rates are applied, combined with the £7 million effect of an increase in return on net worth and the £7 million effect of higher risk discount rates, driven by the increase in long-term interest rates.
- (b) In full year 2012, the credit of £79 million for mortality and morbidity assumption changes primarily reflected mortality improvements in Hong Kong and Singapore and revised assumptions for critical illness business in Singapore.
- (c) In full year 2012, the charge of £(24) million for persistency and withdrawals reflected a number of offsetting items, including adjustments in respect of partial withdrawals in Malaysia.
- (d) In full year 2012, the charge of £(45) million for expense assumption changes principally arose in Malaysia and reflected changes to the pension entitlements of agents.
- (e) The favourable effect of mortality and morbidity experience in half year 2013 of £29 million (half year 2012: £34 million; full year 2012: £57 million) reflects continued better than expected experience, principally arising in Hong Kong, Indonesia, Malaysia and Singapore.
- (f) The persistency and withdrawals experience variance of £(4) million in half year 2013 reflects the net effect of small variances across the territories. The positive experience variance of £52 million in full year 2012 reflected a combination of favourable experience in Hong Kong and Indonesia.
- (g) The negative expense experience variance of £(15) million in half year 2013 (half year 2012: £(25) million; full year 2012: £(30) million) principally reflects expense overruns for operations which are currently sub-scale (China, Malaysia Takaful and Taiwan) and in India where the business model is being adapted in response to the regulatory changes introduced in recent years.

## Notes on the EEV basis results continued

### 3 Operating profit from business in force continued

#### (iii) US operations

	2013 £m		2012 £m	
	Half year	Half year	Half year	Full year
Unwind of discount and other expected returns <sup>note(a)</sup>	287	198		412
Effect of changes in operating assumptions:				
Persistency <sup>note(b)</sup>	73	45		45
Other <sup>note(c)</sup>	(3)	(10)		(10)
	70	35		35
Experience variances and other items:				
Spread experience variance <sup>note(d)</sup>	125	98		205
Amortisation of interest-related realised gains and losses <sup>note(e)</sup>	45	44		91
Other	10	(12)		(6)
	180	130		290
<b>Total US operations</b>	<b>537</b>	<b>363</b>		<b>737</b>

#### Notes

- (a) The increase in unwind of discount and other expected returns of £89 million from £198 million for half year 2012 to £287 million in half year 2013 includes the £71 million effect of the increase in opening value of in-force business (after economic assumption changes and including £23 million in respect of the acquired REALIC book) together with the positive effect of higher risk discount rates of £18 million.
- (b) The effect of changes in persistency assumptions of £73 million in half year 2013 (half year and full year 2012: £45 million) primarily relates to a reduction in lapse rates from the end of the surrender charge period, principally for VA business.
- (c) Other changes in operating assumptions include the effect of changes in mortality assumptions, the capitalised effect of changes in projected policyholder variable annuity fees and the effect of other regular updates to reflect experience. In half year and full year 2012, the effect of changes in mortality assumptions also included the beneficial effect of the explicit modelling of projected mortality improvement.
- (d) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults. The spread experience variance in half year 2013 of £125 million (half year 2012: £98 million; full year 2012: £205 million) includes the positive effect of transactions undertaken to more closely match the overall asset and liability duration.
- (e) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

#### (iv) UK insurance operations

	2013 £m		2012 £m	
	Half year	Half year	Half year	Full year
Unwind of discount and other expected returns <sup>note(a)</sup>	267	245		482
Effect of change in UK corporate tax rate <sup>note(b)</sup>	–	43		87
Other items <sup>note(c)</sup>	7	50		(16)
<b>Total UK insurance operations</b>	<b>274</b>	<b>338</b>		<b>553</b>

#### Notes

- (a) The increase in unwind of discount and other expected returns of £22 million from £245 million in half year 2012 to £267 million for half year 2013 reflects a £14 million effect of higher discount rates, driven by the increase in gilt rates, together with an effect of £8 million arising from the growth in the opening value of in-force.
- (b) For half year and full year 2012, the beneficial effect of the change in UK corporate tax rates of £43 million and £87 million respectively, reflects the reduction in corporate rates enacted in that period (half year 2012: from 25 to 24 per cent, full year 2012: from 25 to 23 per cent). Consistent with the Group's approach of grossing up the movement in the net of tax value of in-force for shareholder tax, the £43 million (full year 2012: £87 million) benefit is presented gross. No changes to UK corporation tax rates were enacted during the first half of 2013.
- (c) The credit of £50 million in half year 2012 included £31 million in respect of the effect of portfolio rebalancing for annuity business. The negative effect of £(16) million in full year 2012 included a charge of £(52) million for the strengthening of mortality assumptions, net of reserve releases and the effects of portfolio rebalancing for annuity business.