

V: Policyholder liabilities**Analysis of movement in policyholder liabilities and unallocated surplus of with-profits funds****Group insurance operations**

	Insurance operations £m			
	UK	US	Asia	Total
Half year 2013 movements				
<i>Comprising:</i>				
– Policyholder liabilities on the condensed consolidated statement of financial position*	133,912	92,261	31,501	257,674
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	10,526	–	63	10,589
– Group's share of policyholder liabilities of joint ventures‡	–	–	3,100	3,100
At 1 January 2013	144,438	92,261	34,664	271,363
Premiums	3,880	8,208	3,266	15,354
Surrenders	(2,315)	(2,420)	(1,652)	(6,387)
Maturities/Deaths	(3,883)	(620)	(430)	(4,933)
Net flows	(2,318)	5,168	1,184	4,034
Shareholders' transfers post tax	(102)	–	(18)	(120)
Investment-related items and other movements	2,411	2,038	5	4,454
Foreign exchange translation differences	211	6,748	1,292	8,251
Reclassification of Japan Life business as held for sale	–	–	(970)	(970)
Acquisition of Thanachart Life	–	–	487	487
At 30 June 2013	144,640	106,215	36,644	287,499
<i>Comprising:</i>				
– Policyholder liabilities on the condensed consolidated statement of financial position	133,290	106,215	33,223	272,728
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	11,350	–	84	11,434
– Group's share of policyholder liabilities of joint ventures‡	–	–	3,337	3,337
Half year 2012 movements*				
<i>Comprising:</i>				
– Policyholder liabilities on the condensed consolidated statement of financial position*	127,024	69,189	28,110	224,323
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	9,165	–	50	9,215
– Group's share of policyholder liabilities of joint ventures‡	–	–	2,752	2,752
At 1 January 2012	136,189	69,189	30,912	236,290
Premiums	4,062	7,303	2,641	14,006
Surrenders	(2,378)	(2,083)	(1,252)	(5,713)
Maturities/Deaths	(3,819)	(451)	(294)	(4,564)
Net flows	(2,135)	4,769	1,095	3,729
Shareholders' transfers post tax	(110)	–	(15)	(125)
Investment-related items and other movements	4,276	1,906	1,055	7,237
Foreign exchange translation differences	(83)	(600)	(227)	(910)
At 30 June 2012	138,137	75,264	32,820	246,221
<i>Comprising:</i>				
– Policyholder liabilities on the condensed consolidated statement of financial position*	128,387	75,264	29,856	233,507
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	9,750	–	52	9,802
– Group's share of policyholder liabilities of joint ventures‡	–	–	2,912	2,912
Average policyholder liability balances†				
Half year 2013	133,601	99,238	35,993	268,832
Half year 2012	127,705	72,227	31,815	231,747

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

† Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the period and exclude unallocated surplus of with-profits funds and adjusted for corporate transactions in the period.

‡ The Group's investment in joint ventures are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the joint venture life business in China, India and of the Takaful business in Malaysia.

Notes on the IFRS basis results continued

V. Policyholder liabilities continued

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year. The items above are shown gross of reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above will exclude any deductions for fees/charges and claims represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

UK insurance operations

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations is as follows:

	Other shareholder-backed funds and subsidiaries			Total £m
	SAIF and PAC with-profits sub-fund £m	Unit-linked liabilities £m	Annuity and other long-term business £m	
Half year 2013 movements				
<i>Comprising:</i>				
– Policyholder liabilities	84,407	22,197	27,308	133,912
– Unallocated surplus of with-profits funds	10,526	–	–	10,526
At 1 January 2013	94,933	22,197	27,308	144,438
Premiums	1,790	1,428	662	3,880
Surrenders	(1,063)	(1,227)	(25)	(2,315)
Maturities/Deaths	(2,709)	(326)	(848)	(3,883)
Net flows ^{note(a)}	(1,982)	(125)	(211)	(2,318)
Shareholders' transfers post tax	(102)	–	–	(102)
Switches	(104)	104	–	–
Investment-related items and other movements ^{note(b)}	1,614	1,067	(270)	2,411
Foreign exchange translation differences	211	–	–	211
At 30 June 2013	94,570	23,243	26,827	144,640
<i>Comprising:</i>				
– Policyholder liabilities	83,220	23,243	26,827	133,290
– Unallocated surplus of with-profits funds	11,350	–	–	11,350
Half year 2012 movements				
<i>Comprising:</i>				
– Policyholder liabilities	80,976	21,281	24,767	127,024
– Unallocated surplus of with-profits funds	9,165	–	–	9,165
At 1 January 2012	90,141	21,281	24,767	136,189
Premiums	2,044	1,064	954	4,062
Surrenders	(1,071)	(1,247)	(60)	(2,378)
Maturities/Deaths	(2,649)	(314)	(856)	(3,819)
Net flows ^{note(a)}	(1,676)	(497)	38	(2,135)
Shareholders' transfers post tax	(110)	–	–	(110)
Switches	(131)	131	–	–
Investment-related items and other movements ^{note(b)}	2,900	343	1,033	4,276
Foreign exchange translation differences	(83)	–	–	(83)
At 30 June 2012	91,041	21,258	25,838	138,137
<i>Comprising:</i>				
– Policyholder liabilities	81,291	21,258	25,838	128,387
– Unallocated surplus of with-profits funds	9,750	–	–	9,750
Average policyholder liability balances*				
Half year 2013	83,814	22,720	27,067	133,601
Half year 2012	81,134	21,269	25,302	127,705

* Averages have been based on opening and closing balances and exclude the unallocated surplus of the with-profits funds.

Notes

- (a) Net outflows increased from £2,135 million in the first half of 2012 to £2,318 million for the same period in 2013, driven by an increase in the net outflows of the with-profits business reflecting lower sales of with-profits bonds in the period. The levels of inflows/outflows for unit-linked business is driven by corporate pension schemes with transfers in or out from one or two schemes influencing the level of flows in the year. Excluding these transactions, the net flow in the unit-linked business for the first half of 2013 is broadly consistent to the same period in 2012.
- (b) Investment-related items and other movements of £2,411 million across fund types reflected the strong growth in the equity market in the first half of 2013, partly offset by the impact on liabilities of rising long-term bond yields.

US insurance operations

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
Half year 2013 movements			
At 1 January 2013	49,298	42,963	92,261
Premiums	5,665	2,543	8,208
Surrenders	(1,352)	(1,068)	(2,420)
Maturities/Deaths	(259)	(361)	(620)
Net flows ^{note (b)}	4,054	1,114	5,168
Transfers from general to separate account	715	(715)	–
Investment-related items and other movements ^{note (c)}	2,323	(285)	2,038
Foreign exchange translation differences ^{note (a)}	3,664	3,084	6,748
At 30 June 2013	60,054	46,161	106,215
Half year 2012 movements			
At 1 January 2012	37,833	31,356	69,189
Premiums	5,060	2,243	7,303
Surrenders	(1,024)	(1,059)	(2,083)
Maturities/Deaths	(194)	(257)	(451)
Net flows ^{note (b)}	3,842	927	4,769
Transfers from general to separate account	708	(708)	–
Investment-related items and other movements ^{note (c)}	1,557	349	1,906
Foreign exchange translation differences ^{note (a)}	(315)	(285)	(600)
At 30 June 2012	43,625	31,639	75,264
Average policyholder liability balances*			
Half year 2013	54,676	44,562	99,238
Half year 2012	40,729	31,498	72,227

* Averages have been based on opening and closing balances.

Notes

- (a) Movements in the period have been translated at an average rate of US\$1.54/£1.00 (30 June 2012: US\$1.58/£1.00). The closing balance has been translated at a closing rate of US\$1.52/£1.00 (30 June 2012: US\$1.57/£1.00; 31 December 2012: US\$1.63/£1.00). Differences upon retranslation are included in foreign exchange translation differences.
- (b) Net flows in the first half of 2013 were £5,168 million compared with £4,769 million in the first half of 2012, driven largely by increased new business volumes in the US business.
- (c) The £2,323 million of investment-related items and other movements for variable annuity separate account liabilities for the first six months in 2013 reflects the increase in US equity market and partly offset by the reduction in bond values during the period. Fixed annuity, GIC and other business investment and other movements primarily reflects interest credited to the policyholder account in the period net of falls in technical provisions held for the guarantees issued with variable annuity business.

Notes on the IFRS basis results continued

V: Policyholder liabilities continued

Asia insurance operations

	With-profits business £m	Unit-linked liabilities £m	Other £m	Total £m
Half year 2013 movements				
Comprising:				
– Policyholder liabilities on the condensed consolidated statement of financial position*	13,388	11,969	6,144	31,501
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	63	–	–	63
– Group's share of policyholder liabilities of joint ventures‡	–	2,059	1,041	3,100
At 1 January 2013	13,451	14,028	7,185	34,664
Premiums:				
New business	144	883	334	1,361
In-force	743	664	498	1,905
	887	1,547	832	3,266
Surrenders ^{note(c)}	(458)	(1,043)	(151)	(1,652)
Maturities/Deaths ^{note(c)}	(284)	(22)	(124)	(430)
Net flows ^{note(b)}	145	482	557	1,184
Shareholders' transfers post tax	(18)	–	–	(18)
Investment-related items and other movements ^{note(d)}	(544)	341	208	5
Reclassification of Japan business held for sale ^{note(f)}	–	(377)	(593)	(970)
Acquisition of Thanachart Life ^{note(e)}	–	–	487	487
Foreign exchange translation differences ^{note(a)}	707	370	215	1,292
At 30 June 2013	13,741	14,844	8,059	36,644
Comprising:				
– Policyholder liabilities on the condensed consolidated statement of financial position	13,657	12,783	6,783	33,223
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	84	–	–	84
– Group's share of policyholder liabilities of joint ventures‡	–	2,061	1,276	3,337
Half year 2012 movements*				
Comprising:				
– Policyholder liabilities on the condensed consolidated statement of financial position*	12,593	10,101	5,416	28,110
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	50	–	–	50
– Group's share of policyholder liabilities of joint ventures‡	–	1,914	838	2,752
At 1 January 2012	12,643	12,015	6,254	30,912
Premiums:				
New business	110	638	297	1,045
In-force	593	617	386	1,596
	703	1,255	683	2,641
Surrenders ^{note(c)}	(303)	(819)	(130)	(1,252)
Maturities/Deaths	(196)	(16)	(82)	(294)
Net flows	204	420	471	1,095
Shareholders' transfers post tax	(15)	–	–	(15)
Investment-related items and other movements	558	325	172	1,055
Foreign exchange translation differences ^{note(a)}	6	(167)	(66)	(227)
At 30 June 2012	13,396	12,593	6,831	32,820
Comprising:				
– Policyholder liabilities on the condensed consolidated statement of financial position*	13,344	10,643	5,869	29,856
– Unallocated surplus of with-profits funds on the condensed consolidated statement of financial position	52	–	–	52
– Group's share of policyholder liabilities of joint ventures‡	–	1,950	962	2,912
Average policyholder liability balances†				
Half year 2013	13,522	14,625	7,846	35,993
Half year 2012	12,969	12,304	6,542	31,815

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

† Averages have been based on opening and closing balances and exclude unallocated surplus of the with-profits funds, and adjusted for corporate transactions in the period.

‡ The Group's investment in joint ventures are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the joint venture life businesses in China, India and of the Takaful business in Malaysia.

Notes

- (a) Movements in the period have been translated at the average exchange rate for the six months ended 30 June 2013. The closing balance has been translated at the closing spot rates as at 30 June 2013. Differences upon retranslation are included in foreign exchange translation differences.
- (b) Net flows have increased to £1,184 million in the first half of 2013 reflecting increased premium flows from new business and growth in the in-force books offset by higher surrenders and maturities in the with-profits business.
- (c) The surrenders for shareholder-backed business in the first half of 2013, are broadly consistent with the equivalent period in 2012 once allowance is made for the movements in investment markets and foreign exchange. For with-profits business, surrenders, maturities and deaths have increased from £499 million in half year 2012 to £742 million in half year 2013, primarily as a result of an increased number of policies within Hong Kong and Singapore reaching their five year anniversary and maturity, the point at which some product features trigger.
- (d) Investment-related items and other movements for with-profits business for the first six months of 2013 principally represents unrealised losses on bonds, following the rise in long-term bond yields within the with-profits funds. This has been partly offset by gains in the unit-linked funds from the improvement in equity markets in the period.
- (e) The acquisition of Thanachart Life reflects the liabilities acquired at the date of acquisition.
- (f) The liabilities of the Japanese life operation at 30 June 2013 have been removed from policyholder liabilities following its reclassification as held for sale at that date.

W: Share capital, share premium and own shares

	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5p each fully paid:			
At 1 January 2012	2,548,039,330	127	1,873
Shares issued under share option schemes	8,209,568	–	14
At 30 June 2012	2,556,248,898	127	1,887
Issued shares of 5p each fully paid:			
At 1 January 2012	2,548,039,330	127	1,873
Shares issued under share option schemes	9,203,022	1	16
At 31 December 2012	2,557,242,352	128	1,889
Issued shares of 5p each fully paid:			
At 1 January 2013	2,557,242,352	128	1,889
Shares issued under share option schemes	2,036,258	–	1
At 30 June 2013	2,559,278,610	128	1,890

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 30 June 2013, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range		Exercisable by year
		from	to	
30 June 2013	9,014,837	288p	629p	2018
30 June 2012	8,181,704	288p	572p	2017
31 December 2012	9,396,810	288p	629p	2018

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc (own shares) either in relation to its share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. Further information about these transactions is set out below.

The cost of own shares of £71 million as at 30 June 2013 (30 June 2012: £101 million; 31 December 2012: £97 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans and savings-related share option schemes. At 30 June 2013, 4.2 million (30 June 2012: 6.5 million; 31 December 2012: 8.0 million) Prudential plc shares with a market value of £45 million (30 June 2012: £49 million; 31 December 2012: £69 million) were held in such trusts all of which are for employee incentive plans.

In half year 2013, the Company purchased the following number of shares in respect of employee incentive plans.

	Number of shares purchased* (in millions)	Cost £m
Half year 2013	2.9	31.4
Half year 2012	5.8	44.2
Full year 2012	9.4	76.1

* The maximum number of shares held during half year 2013 was 8.0 million which was at the beginning of the period.