

**13 Reconciliation of net worth and value of in-force for long-term business**<sup>note(i)</sup>

	Half year 2013 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note (v)	Total long-term business operations
<b>Group</b>					
<b>Shareholders' equity at 1 January 2013</b>	2,957	3,898	6,855	15,411	22,266
New business contribution <sup>notes (iii), (iv)</sup>	(396)	261	(135)	1,048	913
Existing business – transfer to net worth	1,065	(191)	874	(874)	–
Expected return on existing business	41	49	90	616	706
Changes in operating assumptions and experience variances	203	(16)	187	20	207
Loss attaching to held for sale Japan Life business <sup>note 7</sup>	(56)	(1)	(57)	10	(47)
Increase in EEV assumed level of required capital <sup>note (vii)</sup>	(59)	59	–	(13)	(13)
Changes in non-operating assumptions and experience variances	(287)	38	(249)	253	4
<b>Profit after tax from long-term business</b>	511	199	710	1,060	1,770
Exchange movements on foreign operations and net investment hedges	101	145	246	575	821
Bancassurance agreement and purchase of Thanachart Life <sup>notes 4 and (vi)</sup>	365	21	386	26	412
Intra-group dividends (including statutory transfers) and investment in operations	(615)	–	(615)	42	(573)
Mark to market value movements on Jackson assets backing surplus and required capital	(39)	–	(39)	–	(39)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	–	(7)	–	(7)
Other transfers to net worth	5	–	5	–	5
<b>Shareholders' equity at 30 June 2013</b>	3,278	4,263	7,541	17,114	24,655
<b>Representing:</b>					
<b>Asia operations</b>					
<b>Shareholders' equity at 1 January 2013</b>	974	970	1,944	7,518	9,462
New business contribution <sup>note (iv)</sup>	(165)	57	(108)	610	502
Existing business – transfer to net worth	360	11	371	(371)	–
Expected return on existing business	33	–	33	282	315
Changes in operating assumptions and experience variances	32	(24)	8	2	10
Loss attaching to held for sale Japan Life business <sup>note 7</sup>	(56)	(1)	(57)	10	(47)
Changes in non-operating assumptions and experience variances	(38)	(14)	(52)	101	49
<b>Profit after tax from long-term business</b>	166	29	195	634	829
Exchange movements on foreign operations and net investment hedges	21	29	50	335	385
Bancassurance agreement and purchase of Thanachart Life <sup>notes 4 and (vi)</sup>	365	21	386	26	412
Intra-group dividends (including statutory transfers) and investment in operations	(167)	–	(167)	–	(167)
<b>Shareholders' equity at 30 June 2013</b>	1,359	1,049	2,408	8,513	10,921

## Notes on the EEV basis results continued

13 Reconciliation of net worth and value of in-force for long-term business<sup>note(i)</sup> continued

	Half year 2013 £m				
	Free surplus note 8	Required capital	Total net worth	Value of in-force business note (v)	Total long-term business operations
<b>US operations</b>					
<b>Shareholders' equity at 1 January 2013</b>	1,211	1,600	2,811	3,221	6,032
New business contribution <sup>note (iv)</sup>	(211)	172	(39)	350	311
Existing business – transfer to net worth	438	(163)	275	(275)	–
Expected return on existing business	20	28	48	139	187
Changes in operating assumptions and experience variances	133	7	140	68	208
Increase in EEV assumed level of required capital <sup>note (vii)</sup>	(59)	59	–	(13)	(13)
Changes in non-operating assumptions and experience variances	(395)	–	(395)	198	(197)
<b>Profit after tax from long-term business</b>	(74)	103	29	467	496
Exchange movements on foreign operations and net investment hedges	80	116	196	240	436
Intra-group dividends (including statutory transfers)	(304)	–	(304)	–	(304)
Mark to market value movements on Jackson assets backing surplus and required capital	(39)	–	(39)	–	(39)
Other transfers to net worth	17	–	17	–	17
<b>Shareholders' equity at 30 June 2013</b>	891	1,819	2,710	3,928	6,638
<b>UK insurance operations</b>					
<b>Shareholders' equity at 1 January 2013</b>	772	1,328	2,100	4,672	6,772
New business contribution <sup>note (iv)</sup>	(20)	32	12	88	100
Existing business – transfer to net worth	267	(39)	228	(228)	–
Expected return on existing business	(12)	21	9	195	204
Changes in operating assumptions and experience variances	38	1	39	(50)	(11)
Changes in non-operating assumptions and experience variances	146	52	198	(46)	152
<b>Profit after tax from long-term business</b>	419	67	486	(41)	445
Intra-group dividends (including statutory transfers) <sup>note (ii)</sup>	(144)	–	(144)	42	(102)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(7)	–	(7)	–	(7)
Other transfers from net worth	(12)	–	(12)	–	(12)
<b>Shareholders' equity at 30 June 2013</b>	1,028	1,395	2,423	4,673	7,096

## Notes

- (i) All figures are shown net of tax.
- (ii) The amounts shown in respect of free surplus and the value of in-force business for UK insurance operations for intra-group dividends (including statutory transfers) include the repayment of contingent loan funding. Contingent loan funding represents amounts whose repayment to the lender is contingent upon future surpluses 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.
- (iii) The movements arising from new business contribution are as follows:

	2013 £m	2012 £m	
	Half year	Half year	Full year
Free surplus invested in new business	(396)	(364)	(618)
Increase in required capital	261	243	454
Reduction in total net worth	(135)	(121)	(164)
Increase in the value associated with new business	1,048	939	1,955
Total post-tax new business contribution	913	818	1,791

(iv) Free surplus invested in new business is as follows:

	Half year 2013 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Pre-tax new business contribution <sup>note 2</sup>	659	479	130	1,268
Tax	(157)	(168)	(30)	(355)
Post-tax new business contribution	502	311	100	913
Free surplus invested in new business	(165)	(211)	(20)	(396)
Post-tax new business contribution per £1 million free surplus invested	3.0	1.5	5.0	2.3

  

	Half year 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Pre-tax new business contribution <sup>note 2</sup>	547	442	152	1,141
Tax	(133)	(154)	(36)	(323)
Post-tax new business contribution	414	288	116	818
Free surplus invested in new business	(162)	(180)	(22)	(364)
Post-tax new business contribution per £1 million free surplus invested	2.6	1.6	5.3	2.2

  

	Full year 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Pre-tax new business contribution <sup>note 2</sup>	1,266	873	313	2,452
Tax	(284)	(305)	(72)	(661)
Post-tax new business contribution	982	568	241	1,791
Free surplus invested in new business	(292)	(281)	(45)	(618)
Post-tax new business contribution per £1 million free surplus invested	3.4	2.0	5.4	2.9

(v) The value of in-force business includes the value of future margins from current in-force business less the cost of holding required capital and represents:

	30 Jun 2013 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	8,921	4,632	4,932	18,485
Cost of capital	(384)	(223)	(259)	(866)
Cost of time value of guarantees <sup>note (viii)</sup>	(24)	(481)	-	(505)
Net value of in-force business	8,513	3,928	4,673	17,114

  

	30 Jun 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	7,270	3,460	4,806	15,536
Cost of capital	(383)	(139)	(240)	(762)
Cost of time value of guarantees	(28)	(689)	(56)	(773)
Net value of in-force business	6,859	2,632	4,510	14,001

## Notes on the EEV basis results continued

### 13 Reconciliation of net worth and value of in-force for long-term business<sup>note(i)</sup> continued

	31 Dec 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	7,903	3,992	4,916	16,811
Cost of capital	(352)	(121)	(244)	(717)
Cost of time value of guarantees <sup>note(viii)</sup>	(33)	(650)	–	(683)
Net value of in-force business	7,518	3,221	4,672	15,411

- (vi) The free surplus increase of £365 million in respect of the transaction with Thanachart bank includes the purchase cost of the partnership agreement to enable future new sales through the bancassurance channel. As new business is written, the carrying value of this purchase cost is amortised against the new business contribution line of this reconciliation.
- (vii) The increase in required capital in US operations of £59 million reflects the effect of the change from 235 per cent to 250 per cent of risk-based capital.
- (viii) The change in the cost of time value at guarantees for US operations from £(650) million at full year 2012 to £(481) million at half year 2013, primarily relates to variable annuity business, mainly arising from the increase in the expected long-term separate account rate of return of 0.7 per cent driven by the increase in the US 10-year treasury bond rate, partly offset by the impact from new business written in the period.

### 14 Sensitivity of results to alternative assumptions

#### (a) Sensitivity analysis - economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2013 (31 December 2012) and the new business contribution after the effect of required capital for half year 2013 and full year 2012 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase and decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- Holding company statutory minimum capital (by contrast to required capital), (embedded value only);
- 5 basis point increase in UK long-term expected defaults; and
- 10 basis point increase in the liquidity premium for UK annuities.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

#### New business contribution

	Half year 2013 £m				Full year 2012 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
<b>New business contribution<sup>note 2</sup></b>	<b>659</b>	<b>479</b>	<b>130</b>	<b>1,268</b>	<b>1,266</b>	<b>873</b>	<b>313</b>	<b>2,452</b>
Discount rates – 1% increase	(89)	(25)	(16)	(130)	(163)	(40)	(38)	(241)
Interest rates – 1% increase	29	35	2	66	33	104	6	143
Interest rates – 1% decrease	(66)	(55)	(4)	(125)	(106)	(161)	(11)	(278)
Equity/property yields – 1% rise	26	48	6	80	48	97	13	158
Long-term expected defaults – 5 bps increase	–	–	(3)	(3)	–	–	(10)	(10)
Liquidity premium – 10 bps increase	–	–	6	6	–	–	20	20