

Notes on the EEV basis results continued

13 Reconciliation of net worth and value of in-force for long-term business^{note(i)} 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 ^{note(viii)}	(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
New business contribution^{note 2}	659	479	130	1,268	1,266	873	313	2,452
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

Embedded value of long-term business operations

	30 Jun 2013 £m				31 Dec 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
Shareholders' equity ^{note 10}	10,921	6,638	7,096	24,655	9,462	6,032	6,772	22,266
Discount rates – 1% increase	(999)	(255)	(486)	(1,740)	(879)	(209)	(482)	(1,570)
Interest rates – 1% increase	(229)	(110)	(332)	(671)	(218)	(124)	(328)	(670)
Interest rates – 1% decrease	48	56	411	515	85	49	399	533
Equity/property yields – 1% rise	370	238	206	814	328	230	202	760
Equity/property market values – 10% fall	(195)	12	(275)	(458)	(159)	(69)	(309)	(537)
Statutory minimum capital	123	170	4	297	108	89	4	201
Long-term expected defaults – 5 bps increase	–	–	(120)	(120)	–	–	(112)	(112)
Liquidity premium – 10 bps increase	–	–	240	240	–	–	224	224

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumption shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and, to the extent that asset value changes are included in the sensitivities, within short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following period would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for Jackson, the fair value movements on assets backing surplus and required capital which are taken directly to shareholders' equity would also be affected by changes in interest rates.

(b) Effect of changes in future UK corporation tax rate enacted in July 2013

The Finance Bill 2013, which was substantively enacted on 2 July 2013, includes reductions in the UK corporation tax rate from 23 per cent to 21 per cent effective 1 April 2014 and from 21 per cent to 20 per cent effective 1 April 2015. Had the half year 2013 EEV results been prepared on the basis of these new tax rates, the net of tax value of in-force business of UK insurance operations at 30 June 2013 would have been higher by £95 million.

15 Assumptions**Deterministic assumptions**

The tables below summarise the principal financial assumptions:

Assumed investment returns reflect the expected future returns on the assets held and allocated to the covered business at the valuation date.

(i) Asia operations^{notes (a),(b)}

	30 Jun 2013 %										
	China	Hong Kong notes (b),(d)	India	Indonesia	Korea	Malaysia notes (c),(d)	Philippines	Singapore note (d)	Taiwan	Thailand	Vietnam
Risk discount rate:											
New business	10.1	4.3	13.0	11.1	7.3	6.0	10.6	4.5	3.8	10.5	16.1
In force	10.1	4.2	13.0	11.1	7.4	6.0	10.6	5.2	3.7	10.5	16.1
Expected long-term rate of inflation	2.5	2.25	4.0	5.0	3.0	2.5	4.0	2.0	1.0	3.0	5.5
Government bond yield	3.6	2.5	8.0	7.3	3.4	3.6	3.9	2.4	1.4	3.8	9.3