4 Acquisition of bancassurance partnership agreement and subsidiaries

2013

Partnership agreement with Thanachart Bank and purchase of Thanachart Life Assurance Company Limited

On 3 May 2013, the agreement Prudential plc, through its subsidiary Prudential Life Assurance (Thailand) Public Company Limited (Prudential Thailand), entered into in November 2012 to establish an exclusive 15-year partnership with Thanachart Bank Public Company Limited (Thanachart Bank) to develop jointly their bancassurance business in Thailand was launched. At the same time Prudential Thailand completed the acquisition of 100 per cent of the voting interest in Thanachart Life Assurance Company Limited (Thanachart Life), a wholly-owned life insurance subsidiary of Thanachart Bank.

The consideration for the transaction is THB 18.981 billion (£412 million), of which THB 17.500 billion (£380 million) was settled in cash on completion in May 2013 with a further payment of THB 0.946 billion (£20 million), for adjustments to reflect the net asset value as at completion date, paid in July 2013. In addition, a deferred payment of THB 0.535 billion (£12 million) is payable 12 months after completion. The acquired assets are comprised of:

	£m
Acquired assets:	
Net worth (including acquisition of distribution rights)	386
Value of in force acquired	26
Transaction consideration	412

The purchase consideration paid was equivalent to the fair value of the acquired assets and liabilities assumed. No goodwill has been recognised.

2012

Acquisition of Reassure America Life Insurance Company (REALIC)

On 4 September 2012, the Group through its indirect wholly-owned subsidiary Jackson National Life Insurance Company, completed the acquisition of 100 per cent issued share capital of SRLC America Holding Corp. and its primary operating subsidiary Reassure America Life Insurance Company (REALIC). REALIC is a US-based insurance company whose business model was to acquire, through purchase or reinsurance, closed blocks of insurance business, primarily life assurance risks. REALIC did not and does not write new business. The purchase consideration, which remains subject to final agreement under the terms of the transaction with Swiss Re, is £370 million (US$587 million).

In full year 2012, the gain of £453 million arising from the acquisition of REALIC was excluded from the Group's EEV operating profit based on longer-term investment returns.

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns, net of the related change in the time value of cost of options and guarantees, arise as follows:

(i) Group summary

	2013 £m	2012* £m	
	Half year	Half year	Full year
Insurance operations:			
Asia note (ii)	(282)	199	362
US note (iii)	(404)	(62)	(254)
UK note (iv)	(92)	25	315
	(778)	162	423
Other operations:			
Other note (v)	(30)	62	119
Economic hedge value movement note (vi)	–	(15)	(32)
Total	(808)	209	510

* As adjusted from 2012 results previously published for the adoption of revised IAS 19 and the effect of the Japan Life business sale agreement – see note 1.

Notes on the EEV basis results continued

5 Short-term fluctuations in investment returns continued

(ii) Asia operations

For half year 2013, the negative short-term fluctuations in investment returns of £(282) million principally arise in Hong Kong of £(158) million and in Singapore of £(127) million, primarily reflecting unrealised value reductions on bonds, driven by the increase in long-term interest rates.

For half year 2012, the positive short-term fluctuations in investment returns of £199 million in Asia operations mainly reflected unrealised gains on bonds, principally arising in Vietnam of £59 million, Hong Kong of £51 million, Singapore of £40 million and Taiwan of £25 million, together with an unrealised gain of £13 million on the Group's 7.74 per cent stake in China Life Insurance Company of Taiwan which was sold during the second half of 2012.

For full year 2012, the positive short-term fluctuations in investment returns of £362 million in Asia operations were driven by unrealised gains on bonds and higher equity markets, principally arising in Hong Kong of £139 million mainly relating to positive returns on bonds backing participating business, Singapore of £114 million primarily relating to increasing future expected fee income for unit-linked business and unrealised gains on bonds, Taiwan of £56 million for unrealised gains on bonds and CDOs and India of £30 million.

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise the following items:

	2013 £m	2012 £m	
	Half year	**Half year**	**Full year**
Investment return related experience on fixed income securities[note (a)]	**12**	(45)	(99)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity[note (b)]	**(472)**	(42)	(183)
Actual less long-term return on equity based investments and other items	**56**	25	28
	(404)	(62)	(254)

Notes

(a) The credit (charge) relating to fixed income securities comprises the following elements:
- the excess of actual realised gains (losses) over the amortisation of interest related realised gains and losses recorded in the profit and loss account;
- credit loss experience (versus the longer-term assumption); and
- the impact of de-risking activities within the portfolio.

(b) This item reflects the net impact of:
- variances in projected future fees and future benefit costs arising from the effect of market fluctuations on the growth in separate account asset values in the current reporting period; and
- related hedging activity arising from realised and unrealised gains and losses on equity related hedges and interest rate options.

In half year 2013, there was a 6.65 per cent composite rate of return for the variable annuity separate account assets (principally equities and bonds) compared with an assumed longer-term rate of return of 3.0 per cent for the period. Consequently, the asset values and, therefore, projected future fees at 30 June 2013 were higher than assumed. However, net of the impact of related hedging effects there is a short-term fluctuation of £(472) million.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations arise from the following types of business:

	2013 £m	2012 £m	
	Half year	Half year	Full year
With-profits[note (a)]	(55)	58	285
Shareholder-backed annuity[note (b)]	(63)	(1)	(3)
Unit-linked and other	26	(32)	33
	(92)	25	315

Notes

(a) In half year 2013, a return of 3.3 per cent on policyholder asset shares was achieved (half year 2012: 3.5 per cent; full year 2012: 10.5 per cent). The short-term fluctuations in investment returns for with-profits business include the impact of the difference between the actual earned and expected rates of return for the policyholder asset shares and unallocated surplus of the fund.

For full year 2012, the credit of £285 million reflected a return on policyholder asset shares and unallocated surplus of the fund of 9.8 per cent against an expected rate of 5.0 per cent for the year.

(b) Short-term fluctuations in investment returns for shareholder-backed annuity business comprise: (1) losses on surplus assets reflecting increases in corporate bond and gilt yields; (2) the difference between actual and expected default experience; and (3) the effect of mismatching for assets and liabilities of different durations and other short-term fluctuations in investment returns.

(v) Other items

Short-term fluctuations of Other operations in half year 2013 of £(30) million (half year 2012: £62 million; full year 2012: £119 million) primarily represent unrealised value movements on investments, including centrally held swaps to manage foreign exchange and certain macro-economic exposures of the Group.

(vi) Economic hedge value movements

This item represents the costs on short-dated hedge contracts taken out in the first half of 2012 to provide downside protection against severe equity market falls through a period of particular uncertainty with respect to the Eurozone. The hedge contracts were terminated in the second half of 2012.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business, net of the related change in the time value of cost of options and guarantees, included within profit before tax (including actual investment returns) arise as follows:

(i) Group summary

	2013 £m	2012* £m	
	Half year	Half year	Full year
Asia operations[note (ii)]	333	(244)	(135)
US operations[note (iii)]	62	(79)	85
UK insurance operations[note (iv)]	289	(38)	48
Total	684	(361)	(2)

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