# H: Other information on statement of financial position items

## H1: Intangible assets attributable to shareholders

### a Goodwill

| | 2012 £m | 2011 £m |
|---|---|---|
| **Cost** | | |
| At beginning of year | 1,585 | 1,586 |
| Additional consideration paid on previously acquired business | 2 | – |
| Exchange differences | 2 | (1) |
| **At end of year** | 1,589 | 1,585 |
| **Aggregate impairment** | (120) | (120) |
| **Net book amount at end of year** | 1,469 | 1,465 |
| Goodwill attributable to shareholders comprises: | | |
| M&G | 1,153 | 1,153 |
| Other | 316 | 312 |
| | 1,469 | 1,465 |

'Other' represents goodwill amounts across cash generating units (CGUs) in Asia and US operations. Other goodwill amounts are not individually material.

**Impairment testing**
Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to CGUs for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

**Assessment of whether goodwill may be impaired**
Goodwill is tested for impairment by comparing the CGUs' carrying amount, including any goodwill, with its recoverable amount.

With the exception of M&G, the goodwill attributable to shareholders in the statement of financial position mainly relates to acquired life businesses. The Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of acquired life business with the value of the business as determined using the EEV methodology, as described in note D1. Any excess of IFRS over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS statement of financial position may be impaired. The assumptions underpinning the Group's EEV basis of reporting are included in the EEV basis supplementary information in this Annual Report.

# H: Other information on statement of financial position items continued

## H1: Intangible assets attributable to shareholders continued

**M&G**

The recoverable amount for the M&G CGU has been determined by calculating its value in use. This has been calculated by aggregating the present value of future cash flows expected to be derived from the M&G operating segment (based upon management projections).

The discounted cash flow valuation has been based on a three-year plan prepared by M&G, and approved by management, and cash flow projections for later years.

The value in use is particularly sensitive to a number of key assumptions as follows:

i The set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, eg changes in global equity markets, are considered by management in arriving at the expectations for the financial projections for the plan;

ii The assumed growth rate on forecast cash flows beyond the terminal year of the plan. A growth rate of 2.5 per cent (2011: 2.5 per cent) has been used to extrapolate beyond the plan period representing management's best estimate view of the long-term growth rate of the business after considering the future and past growth rates and external sources of data;

iii The risk discount rate. Differing discount rates have been applied in accordance with the nature of the individual component businesses. For retail and institutional business, a risk discount rate of 12 per cent (2011: 12 per cent) has been applied to post-tax cash flows. The pre-tax risk discount rate was 15 per cent (2011: 15 per cent). Management have determined the risk discount rate by reference to an average implied discount rate for comparable UK listed asset managers calculated by reference to risk-free rates, equity risk premiums of 5 per cent and an average 'beta' factor for relative market risk of comparable UK listed asset managers. A similar approach has been applied for the other component businesses of M&G; and

iv That asset management contracts continue on similar terms.

Management believes that any reasonable change in the key assumptions would not cause the recoverable amount of M&G to fall below its carrying amount.

**Japanese life company**

The aggregate goodwill impairment of £120 million at 31 December 2012 and 2011 relates to the goodwill held in relation to the Japanese life operation which was impaired in 2005.

### b Deferred acquisition costs and other intangible assets attributable to shareholders

The deferred acquisition costs (DAC) and other intangible assets in the Group consolidated statement of financial position attributable to shareholders comprise:

| | 2012 £m | 2011* £m | 2010* £m |
|---|---|---|---|
| Deferred acquisition costs related to insurance contracts as classified under IFRS 4 | 3,866 | 3,805 | 3,550 |
| Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4 | 100 | 107 | 110 |
| | 3,966 | 3,912 | 3,660 |
| Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF) | 64 | 64 | 70 |
| Other intangibles | 237 | 258 | 171 |
| | 301 | 322 | 241 |
| Total of deferred acquisition costs and other intangible assets | 4,267 | 4,234 | 3,901 |

* The 2011 and 2010 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A5.

| | 2012 £m | | | | | | 2011 £m | 2010 £m |
|---|---|---|---|---|---|---|---|---|
| | Deferred acquisition costs | | | | PVIF and other intan-gibles | Total | Total | Total |
| | UK | US note (i) | Asia | Asset manage-ment | | | | |
| **Balance at 1 January** | | | | | | | | |
| As previously reported | 111 | 3,880 | 744 | 12 | 322 | 5,069 | 4,667 | 4,097 |
| Effect of change in accounting policy[A5] | – | (785) | (50) | – | – | (835) | (766) | (651) |
| **After effect of change** | 111 | 3,095 | 694 | 12 | 322 | 4,234 | 3,901 | 3,446 |
| Additions | 12 | 798 | 249 | 3 | 31 | 1,093 | 1,117 | 968 |
| Acquisition of REALIC in 2012 and UOB Life Assurance Ltd in 2010 | – | – | – | – | 5 | 5 | – | 12 |
| Amortisation to the income statement: | | | | | | | | |
| Operating profit | (20) | (356) | (277) | (5) | (51) | (709) | (792) | (515) |
| Amortisation related to short-term fluctuations in investment returns | – | 76 | – | – | – | 76 | 287 | 283 |
| | (20) | (280) | (277) | (5) | (51) | (633) | (505) | (232) |
| Exchange differences | – | (144) | (12) | – | (6) | (162) | (2) | 129 |
| Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale† | – | (270) | – | – | – | (270) | (275) | (410) |
| Disposals | – | – | – | – | – | – | (2) | (5) |
| Dilution of Group's holdings | – | – | – | – | – | – | – | (7) |
| **Balance at 31 December** | 103 | 3,199 | 654 | 10 | 301 | 4,267 | 4,234 | 3,901 |

* The 2011 and 2010 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A5.
† (See note D3(g) for explanation).

**US operations DAC**
Summary balances
The DAC amount in respect of US insurance operations comprises amounts in respect of:

| | 2012 £m | 2011* £m | 2010* £m |
|---|---|---|---|
| Variable annuity business | 3,330 | 2,960 | 2,283 |
| Other business | 821 | 855 | 980 |
| Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income) | (952) | (720) | (434) |
| Total DAC for US operations | 3,199 | 3,095 | 2,829 |

* The 2011 and 2010 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A5.

# H: Other information on statement of financial position items continued

## H1: Intangible assets attributable to shareholders continued

### Deferred acquisition costs related to insurance and investment contracts attributable to shareholders

The movement in deferred acquisition costs relating to insurance and investments contracts attributable to shareholders are as follows:

| | 2012 £m | | 2011* £m | | 2010* £m | |
|---|---|---|---|---|---|---|
| | Insurance contracts | Investment management note | Insurance contracts | Investment management note | Insurance contracts | Investment management note |
| **DAC at 1 January** | 3,805 | 105 | 3,550 | 110 | 3,172 | 107 |
| Additions | 1,048 | 12 | 982 | 17 | 710 | 21 |
| Amortisation | (563) | (17) | (450) | (20) | (19) | (18) |
| Exchange differences | (154) | – | – | – | 104 | – |
| Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale | (270) | – | (275) | – | (410) | – |
| Dilution of holding in PruHealth | – | – | – | – | (7) | – |
| **DAC at 31 December** | 3,866 | 100 | 3,807 | 107 | 3,550 | 110 |

* The 2011 and 2010 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A5.

**Note**

All of the additions are through internal development. The carrying amount of the balance comprises the following gross and accumulated amortisation amounts:

| | 31 December | | |
|---|---|---|---|
| | 2012 £m | 2011 £m | 2010 £m |
| Gross amount | 210 | 200 | 183 |
| Accumulated amortisation | (110) | (93) | (73) |
| **Net book amount** | 100 | 107 | 110 |

### Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders

| | 2012 £m | | | | 2011 £m | | | |
|---|---|---|---|---|---|---|---|---|
| | | Other intangibles note (ii) | | | | Other intangibles note (ii) | | |
| | PVIF note (i) | Distri-bution rights | Software | Total | PVIF note (i) | Distri-bution rights | Software | Total |
| **At 1 January** | | | | | | | | |
| Cost | 212 | 235 | 163 | 610 | 203 | 136 | 144 | 483 |
| Accumulated amortisation | (148) | (36) | (104) | (288) | (133) | (23) | (86) | (242) |
| | 64 | 199 | 59 | 322 | 70 | 113 | 58 | 241 |
| Additions (including amounts arising on acquisition of subsidiaries) | 5 | – | 31 | 36 | – | 96 | 24 | 120 |
| Amortisation charge | (5) | (17) | (29) | (51) | (5) | (9) | (21) | (35) |
| Disposals | – | – | – | – | – | – | (2) | (2) |
| Exchange differences | – | (5) | (1) | (6) | (1) | (1) | – | (2) |
| **At 31 December** | 64 | 177 | 60 | 301 | 64 | 199 | 59 | 322 |
| **Comprising:** | | | | | | | | |
| Cost | 217 | 230 | 193 | 640 | 200 | 235 | 163 | 598 |
| Accumulated amortisation | (153) | (53) | (133) | (339) | (136) | (36) | (104) | (276) |
| | 64 | 177 | 60 | 301 | 64 | 199 | 59 | 322 |

**Notes**

(i) All of the PVIF balances relate to insurance contracts and is accounted for under UK GAAP as permitted by IFRS 4. Investment contracts have been fully amortised. Amortisation is charged to the 'acquisition costs and other operating expenditure' line in the income statement over the period of provision of asset management services as those profits emerge.

(ii) Other intangibles comprise distribution and software rights. Distribution rights relate to facilitation fees paid in respect of the bancassurance partnership arrangements in Asia for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised over the term of the distribution contracts. Software is amortised over its useful economic life, which generally represents the licence period of the software acquired. Amortisation is charged to the 'acquisition costs and other expenditure' line in the income statement.

## H2: Intangible assets attributable to with-profits funds

### a Goodwill in respect of acquired investment subsidiaries for venture fund and other investment purposes

| | 2012 £m | 2011 £m |
|---|---|---|
| **At 1 January** | 178 | 166 |
| Additions in the year | – | 12 |
| **At 31 December** | 178 | 178 |

All the goodwill relates to the UK insurance operations segment.

The venture fund investments consolidated by the Group relates to investments by PAC with-profits fund managed by M&G. The goodwill shown in the table above relates to these venture fund investments. Goodwill is tested for impairment of these investments by comparing the investment's carrying value including goodwill with its recoverable amount. The recoverable amount of the investments is determined by calculating their fair value less costs to sell. The fair value is determined by using a discounted cash flow valuation. The valuations are based on cash flow projections to 2016 prepared by management after considering the historical experience and future growth rates of the business. The key assumption applied in the calculations is the risk discount rate ranging from 10 per cent to 14 per cent derived by reference to risk-free rates and an equity premium risk. In 2012, no goodwill was deemed to be impaired following the impairment testing carried out.

### b Deferred acquisition costs and other intangible assets

Other intangible assets in the Group consolidated statement of financial position attributable to with-profits funds consist of:

| | 2012 £m | 2011 £m |
|---|---|---|
| Deferred acquisition costs related to insurance contracts attributable to the PAC with-profits fund | 6 | 6 |
| Distribution rights attributable to with-profits funds of the Asia insurance operations | 70 | 83 |
| Computer software attributable to with-profits funds of the Asia insurance operations | 2 | – |
| | 78 | 89 |

**Deferred acquisition costs related to insurance contracts attributable to the PAC with-profits fund**

The movement in deferred acquisition costs relating to insurance contracts attributable to the PAC with-profits fund is as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| **At 1 January** | 6 | 13 |
| Amortisation charge | – | (7) |
| **At 31 December** | 6 | 6 |

The above costs relate to non-participating business written by the PAC with-profits sub-fund.

No deferred acquisition costs are established for the participating business.

# H: Other information on statement of financial position items continued

## H2: Intangible assets attributable to with-profits funds continued

**Distribution rights attributable to with-profit funds of the Asia insurance operations**
Distribution rights relate to facilitation fees paid in relation to the bancassurance partnership arrangements in Asia for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised over the term of the distribution contracts.

| | 2012 £m | 2011 £m |
|---|---|---|
| **At 1 January** | | |
| Gross amount | 96 | 108 |
| Accumulated amortisation | (13) | (11) |
| | 83 | 97 |
| Amortisation charge | (9) | (5) |
| Exchange differences | (4) | 1 |
| Reclassification | – | (10) |
| **At 31 December** | 70 | 83 |
| **Comprising:** | | |
| Gross amount | 92 | 96 |
| Accumulated amortisation | (22) | (13) |
| | 70 | 83 |

## H3: Reinsurers' share of insurance contract liabilities

| | 2012 £m | 2011 £m |
|---|---|---|
| Insurance contract liabilities | 6,079 | 1,486 |
| Claims outstanding | 780 | 161 |
| | 6,859 | 1,647 |
| Comprising amounts in respect of: | | |
| UK insurance operations[D2(f)] | 608 | 589 |
| US insurance operations[D3(f)] | 6,076 | 907 |
| Asia insurance operations[D4(f)] | 175 | 151 |
| | 6,859 | 1,647 |

The movement on reinsurers' share of insurance contract liabilities is as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| **At 1 January** | 1,486 | 1,167 |
| Acquisition of REALIC | 4,810 | – |
| Other movements in the year | (55) | 303 |
| Foreign exchange translation differences | (162) | 16 |
| **At 31 December** | 6,079 | 1,486 |

## H4: Tax assets and liabilities

### Assets

Of the £254 million (2011: £546 million) current tax recoverable, the majority is expected to be recovered in one year or less.

### Deferred tax asset

| | 2012 £m | 2011 £m |
|---|---|---|
| Unrealised losses on investments | 102 | 297 |
| Balances relating to investment and insurance contracts | 1 | 13 |
| Short-term timing differences | 2,097 | 1,513 |
| Capital allowances | 15 | 15 |
| Unused deferred tax losses | 99 | 438 |
| Total | 2,314 | 2,276 |

The deferred tax asset at 31 December 2012 and 2011 arises in the following parts of the Group:

| | 2012 £m | 2011 £m |
|---|---|---|
| UK insurance operations: | | |
| SAIF | 1 | 1 |
| PAC with-profits fund (including PAL) | 113 | 78 |
| Other | 69 | 153 |
| US insurance operations | 1,889 | 1,392 |
| Asia insurance operations | 83 | 114 |
| Other operations | 159 | 538 |
| Total | 2,314 | 2,276 |

The increase in the deferred tax asset primarily relates to additional short-term timing differences on US insurance reserves following the REALIC acquisition partially offset by the utilisation of tax losses across the Group.

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. Accordingly, for the 2012 results and financial position at 31 December 2012 the possible tax benefit of approximately £158 million (31 December 2011: £158 million), which may arise from capital losses valued at approximately £0.8 billion (31 December 2011: £0.7 billion), is sufficiently uncertain that it has not been recognised. In addition, a potential deferred tax asset of £122 million (31 December 2011: £147 million), which may arise from trading tax losses and other potential temporary differences totalling £0.5 billion (31 December 2011: £0.6 billion) is sufficiently uncertain that it has not been recognised. Of these, losses of £105 million will expire within the next seven years. The remaining losses have no expiry date. Until the end of 2012, for the Group's UK life insurance companies, shareholders' profits were calculated using regulatory surplus as a starting point, with appropriate deferred tax adjustments for IFRS. Beginning in 2013, under new UK life tax rules, shareholders' profits will be calculated using accounting profit or loss as a starting point. As the 2012 Finance Act had been enacted at the balance sheet date, the effects of these changes are reflected in the financial statements for the year ended 31 December 2012 but with no material impact on the Group's net assets.

# H: Other information on statement of financial position items continued

## H4: Tax assets and liabilities continued

The two tables that follow provide a breakdown of the recognised deferred tax assets set out above for both the short-term timing differences and unused tax losses split by business unit. The table also shows the period of estimated recoverability for each respective business unit. For these and each category of deferred tax asset recognised their recoverability against forecast taxable profits is not significantly impacted by any current proposed changes to future accounting standards.

| Short-term timing differences | 2012 £m | Expected period of recoverability |
|---|---|---|
| Asia | 42 | 1 to 3 years |
| JNL | 1,800 | With run-off of in-force book |
| UK long-term business | 151 | 1 to 10 years |
| Other | 104 | 1 to 10 years |
| Total | 2,097 | |

| Unused tax losses | 2012 £m | Expected period of recoverability |
|---|---|---|
| Asia | 36 | 3 to 5 years |
| UK long-term business | 18 | 1 to 3 years |
| Other | 45 | 1 to 3 years |
| Total | 99 | |

### Liabilities
The current tax liability decreased to £445 million (2011: £930 million) reflecting the settlement of prior year balances in the UK and Asia following the agreement of tax positions.

### Deferred tax liability

| | 2012 £m | 2011* £m | 2010* £m |
|---|---|---|---|
| Unrealised gains on investments | 1,814 | 1,566 | 1,678 |
| Balances relating to investment and insurance contracts | 432 | 667 | 801 |
| Short-term timing differences | 1,715 | 1,687 | 1,477 |
| Capital allowances | 9 | 9 | 12 |
| Total | 3,970 | 3,929 | 3,968 |

* The 2011 and 2010 comparative results have been adjusted from those previously published for the retrospective application of the change in accounting policy described in note A5.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting periods.

The UK government's tax rate change to 23 per cent (from the 24 per cent effective from 1 April 2012) has had the effect of reducing the UK with-profits and shareholder-backed business element of the net deferred tax balances as at 31 December 2012 by £52 million. The tax change to 23 per cent is effective from 1 April 2013 but has been enacted at 31 December 2012.

The subsequent proposed phased rate changes to 21 per cent are expected to have the effect of reducing the UK with-profits and shareholder-backed business elements of the net deferred tax balances at 31 December 2012 by £52 million.

## H5: Accrued investment income and other debtors

| | 2012 £m | 2011 £m |
|---|---|---|
| **Accrued investment income** | | |
| Interest receivable | 2,015 | 1,919 |
| Other | 783 | 791 |
| Total | 2,798 | 2,710 |
| **Other debtors** | | |
| Amounts due from: | | |
| Policyholders | 271 | 227 |
| Intermediaries | 27 | 27 |
| Reinsurers | 23 | 11 |
| Other | 1,040 | 722 |
| Total | 1,361 | 987 |
| **Total accrued investment income and other debtors** | 4,159 | 3,697 |

Of the £4,159 million (2011: £3,697 million) of accrued investment income and other debtors, £538 million (2011: £162 million) is expected to be settled after one year or more.

## H6: Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

| | 2012 £m | | | 2011 £m | | |
|---|---|---|---|---|---|---|
| | Group occupied property | Tangible assets | Total | Group occupied property | Tangible assets | Total |
| **At 1 January** | | | | | | |
| Cost | 262 | 915 | 1,177 | 197 | 764 | 961 |
| Accumulated depreciation | (29) | (400) | (429) | (24) | (383) | (407) |
| **Net book amount** | 233 | 515 | 748 | 173 | 381 | 554 |
| **Year ended 31 December** | | | | | | |
| Opening net book amount | 233 | 515 | 748 | 173 | 381 | 554 |
| Exchange differences | (9) | (8) | (17) | (2) | (7) | (9) |
| Depreciation charge | (10) | (80) | (90) | (5) | (69) | (74) |
| Additions | 4 | 135 | 139 | 5 | 119 | 124 |
| Arising on acquisitions of subsidiaries | – | (1) | (1) | 69 | 99 | 168 |
| Disposals and transfers | (2) | (12) | (14) | (7) | (8) | (15) |
| **Closing net book amount** | 216 | 549 | 765 | 233 | 515 | 748 |
| **At 31 December** | | | | | | |
| Cost | 255 | 999 | 1,254 | 262 | 915 | 1,177 |
| Accumulated depreciation | (39) | (450) | (489) | (29) | (400) | (429) |
| **Net book amount** | 216 | 549 | 765 | 233 | 515 | 748 |

### Capital expenditure: property, plant and equipment by segment

The capital expenditure of £135 million (2011: £124 million) arose as follows: £80 million in UK, £24 million in US and £20 million in Asia in insurance operations with the remaining balance of £11 million arising from asset management operations and unallocated corporate expenditure (2011: £69 million in UK, £20 million in US, £21 million in Asia insurance operations and £14 million in other).

# H: Other information on statement of financial position items continued

## H7: Investment properties

Investment properties principally relate to the PAC with-profits fund and are carried at fair value. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

| | 2012 £m | 2011 £m |
|---|---|---|
| **At 1 January** | 10,757 | 11,247 |
| Additions: | | |
| Resulting from acquisitions | 1,025 | 393 |
| Resulting from expenditure capitalised | 118 | 45 |
| Disposals | (695) | (1,439) |
| Net (loss) gain from fair value adjustments | (175) | 522 |
| Net foreign exchange differences | (53) | (41) |
| Transfers (to)/from held for sale assets | (97) | 25 |
| Transfers from owner occupied properties | – | 5 |
| **At 31 December** | 10,880 | 10,757 |

The income statement includes the following items in respect of investment properties:

| | 2012 £m | 2011 £m |
|---|---|---|
| Rental income from investment properties | 559 | 606 |
| Direct operating expenses (including repairs and maintenance expenses) arising from investment properties that generated rental income during the year | 64 | 128 |

Further information on the investment property held by the UK insurance operations further information is included in note D2(a).

Investment properties of £3,845 million (2011: £3,439 million) are held under finance leases. A reconciliation between the total of future minimum lease payments at the statement of financial position date, and their present value is shown below:

| | 2012 £m | 2011 £m |
|---|---|---|
| Future minimum lease payments at 31 December | 988 | 1,071 |
| Future finance charges on finance leases | (877) | (944) |
| Present value of minimum lease payments | 111 | 127 |
| Future minimum lease payments are due as follows: | | |
| Less than 1 year | 6 | 7 |
| 1 to 5 years | 23 | 26 |
| Over 5 years | 959 | 1,038 |
| Total | 988 | 1,071 |
| The present values of these minimum lease payments are: | | |
| Less than 1 year | 6 | 6 |
| 1 to 5 years | 19 | 23 |
| Over 5 years | 86 | 98 |
| **Total** | 111 | 127 |

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future value of a factor that changes other than with the passage of time. There was no contingent rent recognised as income or expense in 2012 and 2011.

The Group's policy is to rent investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Group's freehold investment properties are receivable in the following periods:

| | 2012 £m | 2011 £m |
|---|---|---|
| Less than 1 year | 451 | 430 |
| 1 to 5 years | 1,541 | 1,407 |
| Over 5 years | 3,785 | 3,304 |
| Total | 5,777 | 5,141 |

The total minimum future rentals to be received on non-cancellable sub-leases for the Group's investment properties held under finance leases at 31 December 2012 are £2,439 million (2011: £2,553 million).

## H8: Investments in associates and joint ventures

### Investments in associates

The Group had two associates at 31 December 2012 (31 December 2011: one) that were accounted for under the equity method. The Group's associates at 31 December 2012 are a 25 per cent interest in PruHealth Holdings Limited and a 49.99 per cent interest in PPM South Africa, following the dilution of the Group's holding in the period (see note I2). The Group's share of the profit during the year was a profit of £8 million (full year 2011: a loss of £3 million). The total carrying value of these associates are £113 million (2011: £70 million). This is reflected in the Group's profit after tax attributable to equity holders during the year.

**Associates accounted for using the equity method**

A summary of the movements in investments in associates accounted for using the equity method in 2012 and 2011 is set out below:

| | Share of share capital and share premium £m | Share of retained earnings £m | Share of net assets £m | Goodwill £m | Total carrying value £m |
|---|---|---|---|---|---|
| **Balance at 31 December 2010** | 101 | (31) | 70 | 1 | 71 |
| Capital injection | 4 | – | 4 | – | 4 |
| Disposals | (1) | – | (1) | – | (1) |
| Goodwill write off | – | – | – | (1) | (1) |
| Share of loss for the year after tax | – | (3) | (3) | – | (3) |
| **Balance at 31 December 2011** | 104 | (34) | 70 | – | 70 |
| Transfer of PPMSA as an associate[12] | – | 39 | 39 | – | 39 |
| Exchange translation and other movements | – | (6) | (6) | – | (6) |
| Share of profit for the year after tax | – | 10 | 10 | – | 10 |
| **Balance at 31 December 2012** | 104 | 9 | 113 | – | 113 |

There have been no changes recognised in the other comprehensive income of associates that would also be recognised in the other comprehensive income by the Group.

The Group's share of the assets, liabilities, revenues and profit and loss of associates accounted for using the equity method at 31 December 2012 and 2011 is as follows:

| | **2012** £m | **2011** £m |
|---|---|---|
| **Financial position** | | |
| Total assets (excluding goodwill) | 162 | 109 |
| Total liabilities | (49) | (39) |
| Net assets | 113 | 70 |
| **Results of operations** | | |
| Revenue | 96 | 81 |
| Profit (loss) in the year | 10 | (3) |

There are several minor service agreements in place between the associates and the Group. During 2012, the aggregate amount of the transactions was £42 million (2011: £33 million) and the balance due to the Group as at 31 December 2012 was £73.2 million (2011: £74.2 million).

**Associates and joint ventures carried at fair value through profit and loss**

In addition to the above the Group has associates that are carried at fair value through profit and loss, as allowed under IAS 28, that comprise investments in open-ended investment companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the PAC with-profits funds where the Group has significant influence. These investments are incorporated both in the UK and overseas, and some have year ends which are non-coterminous with that of the Group. In these instances, the investments are recorded at fair value at 31 December 2012 based on valuations or pricing information at that specific date. The aggregate fair value of associates carried at fair value through profit and loss where there are published price quotations is approximately £0.8 billion (2011: £4.8 billion) at 31 December 2012.

The aggregate assets of these associates are approximately £2.2 billion (2011: £3.4 billion). Aggregate liabilities, excluding liabilities to unit holders and shareholders for unit trusts and OEICs, are approximately £0.8 billion (2011: £1.1 billion). Fund revenues, with revenue arising in unit trusts and OEICs deemed to constitute the investment return for these vehicles, were approximately £0.1 billion (2011: £0.3 billion) and net profit in the year, excluding unit trusts and OEICs where all investment returns accrue to unit holders or shareholders respectively, was approximately £0.1 billion (2011: profit of £0.2 billion).

# H: Other information on statement of financial position items continued

## H8: Investments in associates and joint ventures continued

### Investments in joint ventures

The Group owns a number of joint ventures. Joint ventures represent activities over which the Group exercises joint control through contractual agreement with one or more parties. The Group's significant joint ventures, which are accounted for using proportionate consolidation, comprise following interests:

| Investment | % held | Principal activity | Country |
|---|---|---|---|
| CITIC Prudential Life Insurance Company Limited | 50 | Life assurance | China |
| CITIC-Prudential Fund Management Company Limited | 49 | Asset management | China |
| ICICI Prudential Asset Management Company Limited | 49 | Asset management | India |
| Prudential BSN Takaful Berhad | 49 | General and life insurance | Malaysia |
| BOCI-Prudential Asset Management Limited | 36 | Asset management | China (Hong Kong) |
| ICICI Prudential Life Insurance Company Limited | 26 | Life assurance | India |

The investments noted in the table above have the same accounting year end as the Group, except for ICICI Prudential Life Insurance Company Limited and ICICI Prudential Asset Management Company Limited. Although these investments have reporting periods ending 31 March, 12 months of financial information up to 31 December is recorded. Accordingly, the information covers the same period as that of the Group.

Joint ventures contributed £98 million (31 December 2011: £54 million) to profit after tax attributable to equity holders during the period. The year-on-year movement in these contributions reflect the growth in their operating profit based on longer-term investment returns and the increase in short-term fluctuations in investment returns by these joint ventures.

Further, in June 2012, the PAC with-profits fund, via its venture fund holdings and as part of its investment portfolio, entered into a joint venture to acquire control of Veolia Water RegCo (now renamed Affinity Water), the UK regulated water business of Veolia Environnement S.A. This joint venture investment is carried at fair value through profit and loss in the Group's financial statements, as allowed under IAS 28. The results of this operation are reflected in the movement in the unallocated surplus of the PAC with-profits fund and therefore do not affect shareholders' results.

The summarised financial data for the Group's share of investments in joint ventures is as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| **Financial position** | | |
| Current assets | 442 | 706 |
| Non-current assets | 3,504 | 2,757 |
| Total assets | 3,946 | 3,463 |
| Current liabilities | (375) | (301) |
| Non-current liabilities | (3,220) | (2,799) |
| Total liabilities | (3,595) | (3,100) |
| Net equity | 351 | 363 |

| | 2012 £m | 2011 £m |
|---|---|---|
| **Results of operations** | | |
| Revenue | 1,040 | 1,056 |
| Expenses | (942) | (1,002) |
| Net profit | 98 | 54 |

The joint ventures have no significant contingent liabilities or capital commitments to which the Group is exposed nor does the Group have any significant contingent liabilities or capital commitments in relation to its interest in the joint ventures.

## H9: Properties held for sale

Investment properties are classified as held for sale when contracts have been exchanged but the sale has not been completed at the period end. At 31 December 2012 the value of assets held for sale was £98 million (2011: £3 million).

Gains on disposal of held for sale assets are recorded in 'investment return' within the income statement.

## H10: Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

| | **2012** £m | **2011** £m |
|---|---|---|
| Cash | 4,884 | 6,338 |
| Cash equivalents | 1,500 | 919 |
| **Total cash and cash equivalents** | 6,384 | 7,257 |

Cash and cash equivalents held centrally are considered to be available for general use by the Group. These funds amount to £482 million and £309 million at 31 December 2012 and 2011, respectively. The remaining funds are considered not to be available for general use by the Group, and include funds held for the benefit of policyholders.

## H11: Shareholders' equity: share capital, share premium and reserves

A summary of the ordinary shares in issue is set out below:

### Share capital and share premium

| | **Number of ordinary shares** | **Share capital** £m | **Share premium** £m |
|---|---|---|---|
| Issued shares of 5p each fully paid: | | | |
| **At 1 January 2011** | 2,545,594,506 | 127 | 1,856 |
| Shares issued under share option schemes | 2,444,824 | – | 17 |
| **At 31 December 2011** | 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 |

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 31 December 2012, 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** from | to | **Exercisable by year** |
|---|---|---|---|---|
| **31 December 2012** | 9,396,810 | 288p | 629p | 2018 |
| 31 December 2011 | 13,329,709 | 288p | 572p | 2017 |

# H: Other information on statement of financial position items continued

## H11: Shareholders' equity: share capital, share premium and reserves continued

### 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 employee 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 £97 million as at 31 December 2012 (2011: £109 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 31 December 2012, 8.0 million (2011: 8.1 million) Prudential plc shares with a market value of £69 million (2011: £52 million) were held in such trusts. Of this total, 8.0 million (2011: 8.0 million) shares were held in trusts under employee incentive plans.

In 2012, the Company purchased the following number of shares in respect of employee incentive plans.

| | Number of shares purchased (in millions)* | Cost £m |
|---|---|---|
| **2012** | 9.4 | 76.1 |
| 2011 | 8.2 | 54.7 |

* The maximum number of shares held in 2012 was 8.0 million which was in December 2012.

Of the total shares held in trust no shares were held by a qualifying employee share ownership trust (2011: 0.1 million).

The shares purchased each month are as follows:

| | | 2012 share price | | | | 2011 share price | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Low £ | High £ | Cost £ | Number of shares | Low £ | High £ | Cost £ |
| January | 15,573 | 6.40 | 6.40 | 99,589 | 12,723 | 6.83 | 6.83 | 86,834 |
| February | 12,678 | 7.33 | 7.33 | 92,930 | 11,688 | 7.13 | 7.13 | 83,376 |
| March | 4,022,002 | 7.10 | 8.03 | 32,058,297 | 2,106,702 | 7.04 | 7.14 | 15,253,240 |
| April | 368,901 | 7.27 | 7.67 | 2,712,460 | 263,361 | 7.40 | 7.49 | 1,960,300 |
| May | 939,541 | 6.80 | 7.26 | 6,407,556 | 174,614 | 7.46 | 7.53 | 1,307,410 |
| June | 482,377 | 6.61 | 6.84 | 3,208,338 | 1,418,209 | 7.07 | 7.18 | 10,141,069 |
| July | 15,047 | 7.26 | 7.26 | 109,166 | 98,334 | 6.89 | 7.34 | 683,084 |
| August | 28,488 | 7.88 | 8.12 | 228,176 | 1,520,620 | 5.77 | 6.32 | 9,051,804 |
| September | 712,649 | 8.16 | 8.25 | 5,829,154 | 19,273 | 5.85 | 6.00 | 115,022 |
| October | 12,549 | 8.39 | 8.39 | 105,329 | 15,385 | 6.07 | 6.07 | 93,310 |
| November | 492,993 | 8.55 | 9.15 | 4,502,129 | 110,951 | 6.15 | 6.33 | 692,501 |
| December | 2,277,012 | 8.86 | 9.27 | 20,706,597 | 2,456,692 | 6.07 | 6.55 | 15,226,106 |
| **Total** | 9,379,810 | | | 76,059,721 | 8,208,552 | | | 54,694,056 |

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2012 was 4.5 million (2011: 8.6 million) and the cost of acquiring these shares of £27 million (2011: £52 million) is included in the cost of own shares. The market value of these shares as at 31 December 2012 was £39 million (2011: £54 million).

During 2012, these funds made net disposals of 4,143,340 Prudential shares (2011: net disposals of 1,171,635) for a net decrease of £25.1 million to book cost (2011: net increase of £4.8 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2012 or 2011.

### Reserves

The translation reserve of £66 million (2011: £282 million) represents cumulative foreign exchange translation differences taken directly to equity in accordance with IFRS, net of related tax. In accordance with IFRS 1, cumulative translation differences are deemed to be zero at 1 January 2004, the date of transition to IFRS.

The available-for-sale reserve represents gains or losses arising from changes in the fair value of available-for-sale securities of Jackson, net of the related change in amortisation of deferred income and acquisition costs and of the related tax.

## H12: Insurance contract liabilities and unallocated surplus of with-profits funds

### Movement in year

| | Insurance contract liabilities £m | Unallocated surplus of with-profits funds £m |
|---|---|---|
| At 1 January 2011 | 171,291 | 10,253 |
| Income and expense included in the income statement | 8,748 | (1,025) |
| Foreign exchange translation differences | 324 | (13) |
| **At 1 January 2012** | 180,363 | 9,215 |
| Income and expense included in the income statement | 32,760 | 1,381 |
| Foreign exchange translation differences | (4,539) | (7) |
| **At 31 December 2012** | 208,584 | 10,589 |

Notes B5, D2b, D3b and D4b provide further analysis of the movement in the year of the Group's policyholder liabilities and unallocated surplus of the with-profits funds.

## H13: Borrowings

### Core structural borrowings of shareholder-financed operations

| | 2012 £m | | | | 2011 £m |
|---|---|---|---|---|---|
| | Innovative Tier 1* | Lower Tier 2* | Senior† | Total | Total |
| **Central operations** | | | | | |
| Subordinated debt: | | | | | |
| €20m Medium Term Subordinated Notes 2023 note (i) | | 16 | | 16 | 17 |
| £435m 6.125% Subordinated Notes 2031 | | 429 | | 429 | 428 |
| £400m 11.375% Subordinated Notes 2039 | | 386 | | 386 | 384 |
| US$1,000m 6.5% Perpetual Subordinated Capital Securities | 615 | | | 615 | 644 |
| US$250m 6.75% Perpetual Subordinated Capital Securities note (ii) | 154 | | | 154 | 161 |
| US$300m 6.5% Perpetual Subordinated Capital Securities note (ii) | 185 | | | 185 | 193 |
| US$750m 11.75% Perpetual Subordinated Capital Securities | 458 | | | 458 | 477 |
| US$550m 7.75% Perpetual Subordinated Capital Securities note (ii) | 334 | | | 334 | 348 |
| | 1,746 | 831 | – | 2,577 | 2,652 |
| Senior debt: | | | | | |
| £300m 6.875% Bonds 2023 | | | 300 | 300 | 300 |
| £250m 5.875% Bonds 2029 | | | 249 | 249 | 249 |
| | – | – | 549 | 549 | 549 |
| **Total central operations** | 1,746 | 831 | 549 | 3,126 | 3,201 |
| £275m bank loan note (iii) | | | 275 | 275 | 250 |
| US$250m 8.15% Surplus Notes 2027 note (iv) | | 153 | | 153 | 160 |
| **Total** notes (v), (vi) | 1,746 | 984 | 824 | 3,554 | 3,611 |

* These debt classifications are consistent with the treatment of capital for regulatory purposes, as defined in the FSA handbook. In January 2011, the Company issued US$550 million 7.75 per cent Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US$539 million (£340 million) and were used to finance the repayments of the €500 million Tier 2 subordinated debt in December 2011.

The Group has designated US$2.85 billion (2011: US$2.85 billion) of its Tier 1 subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

† The senior debt ranks above subordinated debt in the event of liquidation.

# H: Other information on statement of financial position items continued

## H13: Borrowings continued

**Notes**

(i) The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three month £LIBOR plus 1.2 per cent.

(ii) The US$250 million 6.75 per cent borrowings, the US$300 million 6.5 per cent borrowings and the US$550 million 7.75 per cent borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.

(iii) The PruCap bank loan was increased from £250 million to £275 million on 20 December 2012. The loan has been made in two tranches: a £160 million loan maturing in June 2014, currently drawn at a cost of 12 month £LIBOR plus 0.6 per cent and a £115 million loan maturing on 20 December 2017 and currently drawn at a cost of 12 month £LIBOR plus 0.79 per cent.

(iv) The Jackson borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

(v) Maturity analysis
The following table sets out the contractual maturity analysis of the Group's core structural borrowings:

| | 2012 £m | 2011 £m |
|---|---|---|
| Less than 1 year | 115 | 115 |
| 1 to 2 years | 160 | – |
| 2 to 3 years | – | 135 |
| 3 to 4 years | – | – |
| 4 to 5 years | – | – |
| Over 5 years | 3,279 | 3,361 |
| Total | 3,554 | 3,611 |

(vi) Management analyses the net core structural borrowings position as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| Total core structural borrowings (as above) | 3,554 | 3,611 |
| Less: Holding company cash and short-term investments (recorded within the consolidated statement of financial position) | (1,380) | (1,200) |
| Net core structural borrowings of shareholder-financed operations | 2,174 | 2,411 |

(vii) In January 2013, the Company issued core structural borrowings of US$700 million Tier 1 perpetual subordinated capital securities. The proceeds, net of costs, were US$689 million.

### Operational borrowings attributable to shareholder-financed operations

| | 2012 £m | 2011 £m |
|---|---|---|
| **Borrowings in respect of short-term fixed income securities programmes** | | |
| Commercial paper | 1,535 | 2,706 |
| Medium-Term Notes 2013 note (vi) | 250 | 250 |
| Medium-Term Notes 2015 | 299 | – |
| | 2,084 | 2,956 |
| **Borrowings of US operations** | | |
| Investment subsidiaries (non-recourse) note (i) | 19 | 20 |
| Piedmont and CDO funds (non-recourse) notes (i), (ii) | 1 | 1 |
| | 20 | 21 |
| **Other borrowings** | | |
| Bank loans and overdrafts | 1 | 13 |
| Obligations under finance leases | 1 | 1 |
| Other borrowings note (iii) | 139 | 349 |
| | 141 | 363 |
| Total | 2,245 | 3,340 |

**Notes**

(i) In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds.

(ii) Piedmont is an investment trust investing in certain asset-backed and mortgage-backed securities in the US. These borrowings pertain to debt instruments issued to external parties.

(iii) Other borrowings mainly include amounts whose repayment to the lender is contingent upon future surplus 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.

The Group has chosen to designate as a fair value hedge under IAS 39 certain fixed to floating rate swaps which hedge the fair value exposures to interest rate movements of these borrowings.

In addition, other borrowings include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson.

(iv) In addition to the debt listed above, £200 million Floating Rate Notes were issued by Prudential plc in October 2012 which will mature in April 2013. These Notes have been wholly subscribed by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These notes were originally issued in October 2008 and have been reissued upon their maturity.

(v) Maturity analysis
The following table sets out the contractual maturity analysis of the Group's operational borrowings attributable to shareholder-financed operations:

| | **2012** £m | **2011** £m |
|---|---|---|
| Less than 1 year | 1,920 | 3,169 |
| 1 to 2 years | 6 | 140 |
| 2 to 3 years | 309 | 10 |
| 3 to 4 years | 9 | 10 |
| 4 to 5 years | 1 | 11 |
| Over 5 years | – | – |
| Total | 2,245 | 3,340 |

(vi) In January 2013 the Company repaid on maturity, £250 million Medium-Term Notes included within borrowings in respect of short-term fixed income securities in the table above.

## Borrowings attributable to with-profits operations

| | **2012** £m | **2011** £m |
|---|---|---|
| Non-recourse borrowings of consolidated investment funds[note(i)] | 823 | 747 |
| £100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc[note(ii)] | 100 | 100 |
| Other borrowings (predominantly obligations under finance leases) | 110 | 125 |
| Total[note(iii)] | 1,033 | 972 |

**Notes**
(i) In all instances the holders of the debt instruments issued by these funds do not have recourse beyond the assets of those funds.
(ii) The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinate to the entitlements of the policyholders of that fund.
(iii) Maturity analysis
The following table sets out the contractual maturity analysis of the Group's borrowings attributable to with-profits operations:

| | **2012** £m | **2011** £m |
|---|---|---|
| Less than 1 year | 288 | 297 |
| 1 to 2 years | 82 | 75 |
| 2 to 3 years | 124 | 30 |
| 3 to 4 years | 46 | 110 |
| 4 to 5 years | 61 | 31 |
| Over 5 years | 432 | 429 |
| Total | 1,033 | 972 |

## H14: Provisions and contingencies

### Provisions

| | **2012** £m | **2011** £m |
|---|---|---|
| Provision in respect of defined benefit pension schemes:[13] | | |
| (Surplus) deficit gross of deferred tax, based on scheme assets held, including investments in Prudential insurance policies: | | |
| Attributable to PAC with-profits fund | 37 | 41 |
| Attributable to shareholder-financed operations | (1) | 23 |
| | 36 | 64 |
| Add back investments in Prudential insurance policies | 169 | 165 |
| Provision after elimination of investments in Prudential insurance policies and matching policyholder liabilities from Group statement of financial position | 205 | 229 |
| Other provisions (see below) | 396 | 300 |
| **Total provisions** | 601 | 529 |

# H: Other information on statement of financial position items continued

## H14: Provisions and contingencies continued

Analysis of other provisions:

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **At 1 January** | **I3** | 300 | 282 |
| Charged to income statement: | | | |
| Additional provisions | | 237 | 144 |
| Unused amounts released | | (12) | (29) |
| Used during the year | | (124) | (97) |
| Exchange differences | | (5) | – |
| **At 31 December** | | 396 | 300 |
| Comprising: | | | |
| Legal provisions | | 20 | 14 |
| Restructuring provisions | | 27 | 23 |
| Other provisions | | 349 | 263 |
| **Total** | | 396 | 300 |

### Other provisions

The movement in other provisions is shown in the table below:

| | 2012 £m | | | 2011 £m | | |
|---|---|---|---|---|---|---|
| | Legal provisions note (i) | Restructuring provisions note (ii) | Other provisions note (iii) | Legal provisions note (i) | Restructuring provisions note (ii) | Other provisions note (iii) |
| **At 1 January** | 14 | 23 | 263 | 20 | 26 | 236 |
| Charged to income statement: | | | | | | |
| Additional provisions | 10 | 14 | 213 | – | 5 | 139 |
| Unused amounts released | (1) | (4) | (7) | – | (5) | (24) |
| Used during the year | (2) | (6) | (116) | (6) | (3) | (88) |
| Exchange differences | (1) | – | (4) | – | – | – |
| **Total at 31 December** | 20 | 27 | 349 | 14 | 23 | 263 |

**Notes**

(i) Total legal provisions at 31 December 2012 of £20 million related to Jackson. Jackson has been named in civil proceedings, which appear to be substantially similar to other class action litigation brought against many life insurers in the US, alleging misconduct in the sale of insurance products. Of the £20 million legal provision as at 31 December 2012, £18 million has been established to cover this potential litigation and is expected to be utilised over the next five years.

(ii) Restructuring provisions primarily relate to restructuring activities of UK insurance operations. The provisions pertain to property liabilities resulting from the closure of regional sales centres and branches and staff terminations and other transformation costs to enable streamlining of operations.

(iii) Other provisions comprise staff benefits provisions of £286 million, provisions for onerous contracts of £61 million and regulatory and other provisions of £2 million. Staff benefits are generally expected to be paid out within the next three years.

The provision balance is expected to be paid out within the next five years.

### Contingencies and related obligations

In addition to the legal proceedings relating to Jackson mentioned under the legal provisions section above, the Group is involved in other litigation and regulatory issues.

Whilst the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

#### Pension mis-selling review

The pensions review by the UK insurance regulator of past sales of personal pension policies required all UK life insurance companies to review their cases of potential mis-selling and record a provision for the estimated costs. The Group met the requirement of the FSA to issue offers to all cases by 30 June 2002.

At 31 December 2012 the pension mis-selling provision was £306 million (31 December 2011: £362 million).

The pension mis-selling provision is included within the liabilities in respect of investment contracts with discretionary participation features under IFRS 4. The pension mis-selling provision at 31 December 2012 of £306 million is stochastically determined on a discounted basis. The average discount rate implied in the movement in the year is 2.3 per cent (2011: 2.6 per cent).

The directors believe that, based on current information, the provision, together with future investment return on the assets backing the provision, will be adequate to cover the costs of pension mis-selling including administration costs. Such provision represents the best estimate of probable costs and expenses. However, there can be no assurance that the current provision level will not need to be increased.

The costs associated with the pension mis-selling review have been met from the inherited estate (see below). Accordingly, these costs have not been charged to the asset shares used in the determination of policyholder bonus rates. Hence policyholders' pay-out values have been unaffected by pension mis-selling.

In 1998, Prudential stated that deducting mis-selling costs from the inherited estate would not impact its bonus or investment policy and it gave an assurance that if this unlikely event were to occur, it would make available support to the fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged. The assurance was designed to protect both existing policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing.

This review was completed on 30 June 2002. The assurance will continue to apply to any policy in force at 31 December 2003, both for premiums paid before 1 January 2004, and for subsequent regular premiums (including future fixed, retail prices index or salary related increases and Department for Work and Pensions rebate business). The assurance has not applied to new business since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements. The maximum amount of capital support available under the terms of the assurance will reduce over time.

The bonus and investment policy for each type of with-profits policy is the same irrespective of whether or not the assurance applies and this is expected to continue for the foreseeable future. Hence removal of the assurance for new business has had no impact on policyholder returns.

**Guaranteed annuities**

Prudential Assurance used to sell guaranteed annuity products in the UK and at 31 December 2012 held a provision of £47 million (2011: £90 million) within the main with-profits fund within policyholder liabilities to honour guarantees on these products. The Group's main exposure to guaranteed annuities in the UK is through SAIF and at 31 December 2012 a provision of £371 million (2011: £370 million) was held in SAIF to honour the guarantees. As SAIF is a separate sub-fund of the Prudential Assurance long-term business fund, wholly attributable to the policyholders of the fund, the movement in this provision has no impact on shareholders.

**Other matters**

***Inherited estate of the PAC long-term fund***

The assets of the with-profits sub-fund (WPSF) within the long-term insurance fund of The Prudential Assurance Company Limited (PAC) comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the WPSF is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the WPSF is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate, as working capital, enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of certain significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

***Support for long-term business funds by shareholders' funds***

As a proprietary insurance company, PAC is liable to meet its obligations to policyholders even if the assets of the long-term funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the long-term funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the long-term funds to provide financial support.

In 1997, the business of Scottish Amicable Life Assurance Society (SALAS), a mutual society, was transferred to PAC. In effecting the transfer, a separate sub-fund, Scottish Amicable Insurance Fund (SAIF), was established within PAC's long-term business fund. This sub-fund contains all the with-profits business and all other pension business that was transferred. No new business has been or will be written in the sub-fund and the sub-fund is managed to ensure that all the invested assets are distributed to SAIF policyholders over the lifetime of SAIF policies. With the exception of certain amounts in respect of the unitised with-profits life business, all future earnings arising in SAIF are retained for SAIF policyholders. Any excess (deficiency) of revenue over expense within SAIF during a period is attributable to the policyholders of the fund. Shareholders have no interest in the profits of SAIF but are entitled to the asset management fees paid on this business.

SAIF with-profits policies contain minimum levels of guaranteed benefit to policyholders. In addition, as mentioned earlier in this note, certain pensions products have guaranteed annuity rates at retirement. Should the assets of SAIF be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the PAC long-term fund would be liable to cover any such deficiency in the first instance. The directors believe that the probability of either the PAC long-term fund or the Group's shareholders' funds having to contribute to SAIF is remote.

# H: Other information on statement of financial position items continued

## H14: Provisions and contingencies continued

***Unclaimed property provision***

Jackson has received regulatory enquiries on an industry-wide matter relating to claims settlement practices and compliance with unclaimed property laws. Concurrently, some regulators and state legislatures have required and others are considering proposals that would require life insurance companies to take additional steps to identify unreported deceased policy and contract holders. Additionally, numerous states are contracting with independent firms to perform specific unclaimed property audits or targeted market conduct examinations covering claims settlement practices and procedures for escheating unclaimed property. One such firm has been contracted by treasury departments of 26 states to perform an examination of the Jackson's practices for handling unclaimed property. Any regulatory audits, related examination activity and internal reviews may result in additional payments to beneficiaries, escheatment of funds deemed abandoned under state laws, administrative penalties and changes in the Jackson's procedures for the identification of unreported claims and handling of escheatable property.

In 2011, Jackson initiated a project to compare its entire policy master file to vendors' databases of known deaths and accrued a £16 million provision for potential claims at 31 December 2011. In 2012, Jackson recognised a charge of £18 million, net of policy reserves released upon death, as a result of the project. At 31 December 2012, based on its current analysis, Jackson has accrued £17 million for estimated remaining claims that have not yet been positively identified.

***Guarantees and commitments***

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies. These guarantee funds are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The Group estimated its reserve for future guarantee fund assessments for Jackson, included within other liabilities, to be £31 million at 31 December 2012 (2011: £17 million). Similar assessments for the UK businesses were not significant. The directors believe that the reserve is adequate for all anticipated payments for known insolvencies.

At 31 December 2012, Jackson has unfunded commitments of £325 million (2011: £341 million) related to its investments in limited partnerships and of £86 million (2011: £77 million) related to commercial mortgage loans. These commitments were entered into in the normal course of business and the directors do not expect a material adverse impact on the operations to arise from them.

Jackson owns debt instruments issued by securitisation trusts managed by PPM America. At 31 December 2012, the support provided by certain forbearance agreements Jackson entered into with the counterparty to certain of these trusts could potentially expose Jackson to maximum losses of £31 million (2011: £71 million), if circumstances allowed the forbearance period to cease. Jackson believes that, so long as the forbearance period continues, the risk of loss under the agreements is remote.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the Company does not consider that the amounts involved are significant.

## H15: Other liabilities

| | **2012** £m | **2011** £m |
|---|---|---|
| Creditors arising from direct insurance and reinsurance operations | 1,134 | 970 |
| Interest payable | 62 | 67 |
| Other items* | 2,258 | 212 |
| Total | 3,454 | 1,249 |

* Of the £2,258 million other items as at 31 December 2012, £2,021 million related to liabilities for funds withheld under reinsurance arrangement of the Group's US operations from the purchase of REALIC, as discussed in note I1.