D: Other notes

D1: Business acquisitions and disposals

a Acquisition of Thanachart Life Assurance Company Limited and bancassurance partnership agreement with Thanachart Bank

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. This transaction builds on Prudential's strategy of focusing on the highly attractive markets of South-east Asia and is in line with the Group's multichannel distribution strategy.

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. Included in the total consideration of THB 18.981 billion (£412 million) was the cost of the distribution rights associated with the exclusive 15-year bancassurance partnership agreement with Thanachart Bank.

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

In addition to the purchase consideration, the Group incurred £4 million of acquisition related costs, of which £3 million was recognised as an expense in the consolidated income statement in the second half of 2012 and the remaining £1 million recognised in 2013.

Assets acquired and liabilities assumed at the date of acquisition

The fair value of the acquired assets and liabilities are shown in the table below:

	Fair value recognised at acquisition date £m
Assets	
Acquired value of in-force business	21
Investments (principally debt securities)	642
Cash and cash equivalents	4
Other assets (including distribution rights)	293
Total assets	960
Liabilities	
Insurance contract liabilities	487
Other non-insurance liabilities	61
Total liabilities	548
Net assets acquired and liabilities assumed	412
Purchase consideration (including £12 million of deferred consideration)	412

Insurance contract liabilities were valued consistent with Prudential's existing IFRS valuation basis for the Thailand Life business, determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with UK GAAP. In accordance with IFRS 3 'Business Combinations', an acquired value of in-force business has been recognised.

Included within the identifiable assets as shown above are loans and other debtors acquired with fair values of £6 million. These values represent the gross contractual amounts all of which are expected to be collected.

The consolidated statement of cashflows contains a £396 million net cash outflow in respect of the acquisition of Thanachart Life and the cost of the distribution rights representing cash consideration paid of £400 million less cash and cash equivalents acquired of £4 million.

Impact of the acquisition on the results of the Group

	Actual £m	Proforma £m
	Post-acquisition period from 3 May to 31 Dec 2013	Estimated full year 2013 note (i)
Revenue	113	197
Operating profit based on longer-term investment returns	30	40
Short-term fluctuations in investment returns	(7)	(7)
Amortisation of acquisition accounting adjustments[note (ii)]	(3)	(4)
Profit before tax	20	29

Notes

(i) The proforma shows the estimation of the Thanachart Life business' contribution to the Group's consolidated revenue and profit before tax for the period if the acquisition had occurred on 1 January 2013. In determining these amounts, it has been assumed that the fair value adjustments which arose on the date of acquisition would have been the same as if the acquisition had occurred on 1 January 2013. These amounts have been determined using actual results for the four month period to 2 May 2013 and the post-acquisition results from 3 May to 31 December 2013.

(ii) The amortisation of acquisition accounting adjustments represents the amortisation of the acquired value of in-force business.

b Acquisition of Reassure America Life Insurance Company in 2012

On 4 September 2012, the Group through its indirect wholly-owned subsidiary, Jackson 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. At 31 December 2012, the purchase consideration was subject to final agreement under the terms of the transaction with Swiss Re. No goodwill was recognised under IFRS on the date of the completion of the acquisition as the purchase consideration paid was equivalent to the fair value of the identifiable assets and liabilities assumed.

In the course of 2013, following the conclusion of an independent arbitration process over outstanding matters, the purchase consideration for REALIC was revised to £381 million in line with the re-measured value of the individual acquired assets and liabilities. This compares to the provisional estimates of £370 million for consideration and net assets reported in the 2012 consolidated IFRS financial statements.

The consolidated statement of cash flows in 2012 contained a £224 million net cash outflow in respect of this acquisition representing cash consideration of £371 million less cash and cash equivalents acquired of £147 million. In 2013 an additional cash outflow of £9 million was recorded reflecting the revised consideration.

c Agreement to sell Japan life business

On 16 July 2013, the Group reached an agreement to sell the Group's closed book life insurance business in Japan, PCA Life Insurance Company Limited to SBI Holdings Inc. for US$85 million (£51 million at 31 December 2013 closing exchange rate). Completion of the transaction is dependent on regulatory approval.

The Japan life business has been classified as held for sale in these consolidated financial statements in accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations'. Consistent with its classification as held for sale, the IFRS carrying value of the Japan life business has been set to £48 million at 31 December 2013, representing the proceeds, net of related expenses. This has resulted in a charge as for 'Remeasurement of Japan life business classified as held for sale' of £(120) million in the income statement.

In order to facilitate comparisons of the Group's retained businesses, the supplementary analysis of profit of the Group as shown in note B1.1 has been adjusted to show separately the results for the Japan life business. Accordingly, the comparative results for 2012 have been retrospectively adjusted. For 2013 the result for the year, including short-term fluctuations in investment returns, together with the adjustment to the carrying value have given rise to an aggregate loss of £(102) million (2012: £17 million profit). This comprises:

	2013 £m	2012 £m
Remeasurement of carrying value on classification as held for sale	(120)	–
Amounts that would otherwise be classified within:		
Operating profit based on longer-term investment returns	3	(2)
Short-term fluctuations in investment returns	15	19
(Loss) profit attaching to held for sale Japan life business	(102)	17
Related tax charge	–	–

D: Other notes continued

D1: Business acquisitions and disposals continued

The assets and liabilities of the Japan life business classified as held for sale on the statement of financial position as at 31 December 2013 are as follows:

	2013 £m
Assets	
Investments	956
Other assets	80
	1,036
Adjustment for remeasurement of the carrying value to fair value less costs to sell	(120)
Assets held for sale	916
Liabilities	
Policyholder liabilities	814
Other liabilities	54
Liabilities held for sale	868
Net assets	48

d PAC with-profits funds acquisitions

In December 2013, the PAC with-profits fund, via its venture fund holdings and as part of its investment portfolio, acquired a 100 per cent interest of Falbygdens Energi AB, a Swedish utility company. The main business operations comprise the production and distribution of district heating and the distribution of electricity primarily within the municipality of Falköping. The company also operates a broadband business in the municipality.

The consideration paid of £71 million was equivalent to the fair value of acquired assets and liabilities assumed. No goodwill has been recognised.

As these transactions are within the with-profits fund, they have no impact on shareholders' profit or equity for the year ended 31 December 2013. The impact on the Group's consolidated revenue, including investment returns, is not material. Had the acquisitions been effected at 1 January 2013, the revenue and profit of the Group for the year ended 31 December 2013 would not have been materially different.

D2: Domestication of the Hong Kong branch business

On 1 January 2014, following consultation with policyholders of PAC and regulators and court approval, the Hong Kong branch of PAC was transferred to separate subsidiaries established in Hong Kong. On an IFRS basis, approximately £12.6 billion of assets, £12.3 billion of liabilities (including policyholder liabilities of £10.2 billion and £1.7 billion of unallocated surplus) and £0.3 billion of shareholders' funds (for the excess assets of the transferred non-participating business) have been transferred.

The costs of enabling the domestication in 2013 were £35 million. Within the Group's supplementary analysis of profit, these costs have been presented as a separate category of items excluded from operating profit based on longer-term investment returns as shown in note B1.1.

D3: Contingencies and related obligations

In addition to the legal proceedings relating to Jackson mentioned under the legal provisions section in note C12, 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 UK insurance regulator to issue offers to all cases by 30 June 2002.

At 31 December 2013 the pension mis-selling provision was £286 million (31 December 2012: £306 million). The pension mis-selling provision is included within the liabilities in respect of investment contracts with discretionary participation features under IFRS 4 and is stochastically determined on a discounted basis. The average discount rate implied in the movement in the year is 3.4 per cent (2012: 2.3 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) and, accordingly 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. This review was completed on 30 June 2002 with the assurance continuing 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 price index or salary related increases and Department of Work and Pensions rebate business). The assurance has not applied to new business since 1 January 2004.

Guaranteed annuities

PAC used to sell guaranteed annuity products in the UK and at 31 December 2013 held a provision of £36 million (2012: £47 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 2013 a provision of £328 million (2012: £371 million) was held in SAIF to honour the guarantees. As SAIF is a separate sub-fund of the PAC long-term business fund, attributable to the policyholders, 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 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.

This estate 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 of its utilisation.

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 with the creation of, a separate sub-fund, Scottish Amicable Insurance Fund (SAIF) within PAC's long-term business fund containing 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 it 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.

Unclaimed Property Provision

Jackson has received regulatory enquiries on a developing industry-wide matter regarding 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 contracted with the treasury departments of 27 states to perform an examination of 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 (ie, reversion of funds to the state) deemed abandoned under state laws, administrative penalties and changes in Jackson's procedures for the identification of unreported claims and handling of escheatable property. At 31 December 2013, Jackson has accrued £12 million to cover any such liability.

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 and 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 £13 million at 31 December 2013 (2012: £31 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.

D: Other notes continued

D3: Contingencies and related obligations continued

At 31 December 2013, Jackson has unfunded commitments of £298 million (2012: £325 million) related to its investments in limited partnerships and of £132 million (2012: £86 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.

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.

Intra-group capital support arrangements

Prudential and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential (including in the scenarios referred to in pension mis-selling review above). While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries, which from 1 January 2014, contain the domesticated branch business from PAC as noted in note D2 regarding their solvency levels. In addition, the scheme of transfer of the Hong Kong branch includes short-term support arrangements between Prudential and PAC to underpin similar arrangements between PAC and the newly domesticated business. It is considered unlikely that support will need to be provided under these arrangements.

D4: Post balance sheet events

Final dividend

The 2013 final dividend approved by the Board of Directors after 31 December 2013 is as described in note B7.

D5: Additional information on the effect of adoption of new and amended accounting standards

The new and amended accounting standards adopted by the Group in 2013 are explained in note A2. The tables below show the quantitative effect of the adoption of these new and amended standards on the Group primary financial statements and supplementary analysis of profit.

(a) The aggregate effect of the adoption of the standards on the income statement, earnings per share, statement of comprehensive income, statement of changes in equity, statement of financial position and cash flow statement is shown in the tables below:

Consolidated income statement

	2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	53,499	116	(1,240)	–	52,375
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(43,948)	–	837	(43)	(43,154)
Acquisition costs and other expenditure	(7,409)	(116)	244	115	(7,166)
Remeasurement of carrying value of Japan life business classified as held for sale	(120)	–	–	–	(120)
Share of profit from joint ventures and associates, net of related tax*	–	–	147	–	147
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	2,022	–	(12)	72	2,082
Less tax charge attributable to policyholders' returns	(437)	–	–	(10)	(447)
Profit before tax attributable to shareholders	1,585	–	(12)	62	1,635
Total tax charge attributable to policyholders and shareholders	(724)	–	12	(24)	(736)
Adjustment to remove tax charge (credit) attributable to policyholders' returns	437	–	–	10	447
Tax charge attributable to shareholders' returns	(287)	–	12	(14)	(289)
Profit for the year attributable to equity holders of the Company	1,298	–	–	48	1,346
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	50.9p	–	–	1.9p	52.8p
Diluted	50.8p	–	–	1.9p	52.7p

	2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Total revenue, net of reinsurance	55,476	52	(1,090)	–	54,438
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(45,953)	–	715	94	(45,144)
Acquisition costs and other expenditure	(6,335)	(52)	220	(145)	(6,312)
Share of profit from joint ventures and associates, net of related tax*	–	–	135	–	135
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,188	–	(20)	(51)	3,117
Less tax charge attributable to policyholders' returns	(378)	–	2	6	(370)
Profit before tax attributable to shareholders	2,810	–	(18)	(45)	2,747
Total tax charge attributable to policyholders and shareholders	(991)	–	20	17	(954)
Adjustment to remove tax charge (credit) attributable to policyholders' returns	378	–	(2)	(6)	370
Tax charge attributable to shareholders' returns	(613)	–	18	11	(584)
Profit for the year attributable to equity holders of the Company	2,197	–	–	(34)	2,163
Earnings per share (in pence)					
Based on profit attributable to the equity holders of the Company:					
Basic	86.5p	–	–	(1.4)p	85.1p
Diluted	86.4p	–	–	(1.4)p	85.0p

* The effect of change from IFRS 11 in the table above includes the reclassification of the Group's share of profit from its investments in associates into the line for share of profit from joint ventures and associates, net of related tax. These investments were already on the equity method accounting prior to 2013 but their results were previously included within the Investment return included with total revenue.

Consolidated statement of comprehensive income and statement of changes in equity

	2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Profit for the year	1,298	–	–	48	1,346
Exchange movements on foreign operations and net investment hedges, net of related tax	(255)	–	–	–	(255)
Net unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	(1,034)	–	–	–	(1,034)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax	–	–	–	(48)	(48)
Total comprehensive income for the year	9	–	–	–	9
Net increase in shareholders' equity	(709)	–	–	–	(709)
At beginning of year	10,359	–	–	–	10,359
At end of year	9,650	–	–	–	9,650

D: Other notes continued

D5: Additional information on the effect of adoption of new and amended accounting standards continued

	2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Profit for the year	2,197	–	–	(34)	2,163
Exchange movements on foreign operations and net investment hedges, net of related tax	(216)	–	–	–	(216)
Net unrealised valuation on securities of US insurance operations classified as available-for-sale net of amortisation of deferred acquisition costs and related tax	387	–	–	–	387
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, net of related tax	–	–	–	34	34
Total comprehensive income for the year	2,368	–	–	–	2,368
Net increase in shareholders' equity	1,795	–	–	–	1,795
At beginning of year	8,564	–	–	–	8,564
At end of year	10,359	–	–	–	10,359

Consolidated statement of financial position

	31 Dec 2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	6,837	–	(81)	–	6,756
Intangible assets attributable to with-profits funds	249	–	–	–	249
Reinsurers' share of insurance contract liabilities	6,846	–	(8)	–	6,838
Other non-investment and non-cash assets	8,038	21	(128)	–	7,931
Investments of long-term business and other operations:					
Investment properties	12,015	–	(538)	–	11,477
Investments accounted for using the equity method	100	–	709	–	809
Financial investments:					
Loans	11,755	830	(19)	–	12,566
Equity securities and portfolio holdings in unit trusts	120,974	547	(1,299)	–	120,222
Debt securities	134,278	139	(1,512)	–	132,905
Other investments	6,291	(1)	(25)	–	6,265
Deposits	12,563	(3)	(347)	–	12,213
Total other assets	8,128	(125)	(302)	–	7,701
Total assets	328,074	1,408	(3,550)	–	325,932
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	289,173	–	(3,159)	–	286,014
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	4,167	1,111	–	–	5,278
Total other liabilities	25,083	297	(391)	–	24,989
Total liabilities	318,423	1,408	(3,550)	–	316,281
Equity					
Shareholders' equity	9,650	–	–	–	9,650
Non-controlling interests	1	–	–	–	1
Total equity	9,651	–	–	–	9,651
Total equity and liabilities	328,074	1,408	(3,550)	–	325,932

	31 Dec 2012 £m				
	As reported under previous accounting requirements	**Effect of IFRS changes**			**After IFRS changes**
		IFRS 10	**IFRS 11**	**IAS 19R**	
Assets					
Intangible assets attributable to shareholders	5,736	–	(90)	–	5,646
Intangible assets attributable to with-profits funds	256	–	–	–	256
Reinsurers' share of insurance contract liabilities	6,859	–	(5)	–	6,854
Other non-investment and non-cash assets	7,492	25	(113)	–	7,404
Investments of long-term business and other operations:					
Investment properties	10,880	–	(326)	–	10,554
Investments accounted for using the equity method	113	–	522	–	635
Financial investments:					
Loans	11,821	930	(8)	–	12,743
Equity securities and portfolio holdings in unit trusts	99,958	172	(1,504)	–	98,626
Debt securities	140,103	146	(1,342)	–	138,907
Other investments	7,900	(323)	(30)	–	7,547
Deposits	12,653	(3)	(402)	–	12,248
Total other assets	6,482	(121)	(137)		6,224
Total assets	310,253	826	(3,435)	–	307,644
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	271,363	–	(3,100)	–	268,263
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	4,345	800	–	–	5,145
Total other liabilities	24,181	26	(335)	–	23,872
Total liabilities	299,889	826	(3,435)	–	297,280
Equity					
Shareholders' equity	10,359	–	–	–	10,359
Non-controlling interests	5	–	–	–	5
Total equity	10,364	–	–	–	10,364
Total equity and liabilities	310,253	826	(3,435)	–	307,644

D: Other notes continued

D5: Additional information on the effect of adoption of new and amended accounting standards continued

	31 Dec 2011 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Assets					
Intangible assets attributable to shareholders	5,699	–	(91)	–	5,608
Intangible assets attributable to with-profits funds	267	–	–	–	267
Reinsurers' share of insurance contract liabilities	1,647	–	(4)	–	1,643
Other non-investment and non-cash assets	7,267	23	(91)	–	7,199
Investments of long-term business and other operations:					
Investment properties	10,757	–	(287)	–	10,470
Investments accounted for using the equity method	70	–	446	–	516
Financial investments:					
Loans	9,714	675	(8)	–	10,381
Equity securities and portfolio holdings in unit trusts	87,349	(50)	(1,336)	–	85,963
Debt securities	124,498	199	(1,050)	–	123,647
Other investments	7,509	(241)	(28)	–	7,240
Deposits	10,708	(30)	(338)	–	10,340
Total other assets	7,260	(305)	(211)	–	6,744
Total assets	272,745	271	(2,998)	–	270,018
Liabilities					
Policyholder liabilities and unallocated surplus of with-profits funds	236,290	–	(2,752)	–	233,538
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,840	284	–	–	4,124
Total other liabilities	24,008	(13)	(246)	–	23,749
Total liabilities	264,138	271	(2,998)	–	261,411
Equity					
Shareholders' equity	8,564	–	–	–	8,564
Non-controlling interests	43	–	–	–	43
Total equity	8,607	–	–	–	8,607
Total equity and liabilities	272,745	271	(2,998)	–	270,018

Consolidated statement of cash flows

	2013 £m				
	Under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	2,022	–	(12)	72	2,082
Non-cash movements in operating assets and liabilities reflected in profit before tax and other items	(272)	(124)	(290)	(72)	(758)
Net cash flows from operating activities	1,750	(124)	(302)	–	1,324
Cash flows from investing activities	(584)	–	–	–	(584)
Cash flows from financing activities	49	–	–	–	49
Net increase in cash and cash equivalents	1,215	(124)	(302)	–	789
Cash and cash equivalents at beginning of year	6,126	–	–	–	6,126
Effect of exchange rate changes on cash and cash equivalents	(130)	–	–	–	(130)
Cash and cash equivalents at end of year	7,211	(124)	(302)	–	6,785

	2012 £m				
	As reported under previous accounting requirements	Effect of IFRS changes			After IFRS changes
		IFRS 10	IFRS 11	IAS 19R	
Cash flows from operating activities					
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*	3,188	–	(20)	(51)	3,117
Non-cash movements in operating assets and liabilities reflected in profit before tax and other items	(2,742)	190	89	51	(2,412)
Net cash flows from operating activities	446	190	69	–	705
Cash flows from investing activities	(326)	–	–	–	(326)
Cash flows from financing activities	(892)	–	–	–	(892)
Net decrease in cash and cash equivalents	(772)	190	69	–	(513)
Cash and cash equivalents at beginning of year	7,257	(310)	(206)	–	6,741
Effect of exchange rate changes on cash and cash equivalents	(101)	–	(1)	–	(102)
Cash and cash equivalents at end of year	6,384	(120)	(138)	–	6,126

(b) The effect of the adoption of the new and amended accounting standards in 2013 on the Group's supplementary analysis of profit is shown in the table below.

Segment disclosure – profit before tax

	2013 £m			
	Under previous accounting requirements	Effect of IFRS changes		After IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations:				
Before reclassification of held for sale Japan life business	1,009	(5)	–	1,004
Reclassification of Japan life business	(3)	–	–	(3)
	1,006	(5)	–	1,001
Eastspring Investments	82	(8)	–	74
Other operations	1,879	–	–	1,879
Total	2,967	(13)	–	2,954
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan life business	(1,095)	1	(1)	(1,095)
Reclassification of Japan life business	(15)	–	–	(15)
	(1,110)	1	(1)	(1,110)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	(63)	–	63	–
Amortisation of acquisition accounting adjustments	(72)	–	–	(72)
Loss attaching to held for sale Japan life business:				
Reclassification from operating profit based on longer-term investment returns	3	–	–	3
Reclassification from short-term fluctuations in investment returns	15	–	–	15
Remeasurement of carrying value of Japan life business classified as held for sale	(120)	–	–	(120)
	(102)	–	–	(102)
Costs of domestication of Hong Kong branch	(35)	–	–	(35)
Profit before tax attributable to shareholders	1,585	(12)	62	1,635
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests	90.9p	–	–	90.9p
Basic EPS based on total profit after tax and non-controlling interests	50.9p	–	1.9p	52.8p

D: Other notes continued

D5: Additional information on the effect of adoption of new and amended accounting standards continued

	2012 £m			
	As reported under previous accounting requirements	Effect of IFRS changes		After IFRS changes
		IFRS 11	IAS 19R	
Operating profit based on longer-term investment returns				
Asia operations:				
Asia insurance operations:				
Before reclassification of held for sale Japan life business	913	(9)	–	904
Reclassification of Japan life business	2	–	–	2
	915	(9)	–	906
Eastspring Investments	75	(6)	–	69
Other operations	1,545	–	–	1,545
Total	2,535	(15)	–	2,520
Short-term fluctuations in investment returns:				
Before reclassification of held for sale Japan life business	204	(3)	5	206
Reclassification of Japan life business	(19)	–	–	(19)
	185	(3)	5	187
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes	50	–	(50)	–
Amortisation of acquisition accounting adjustments	(19)	–	–	(19)
Gain on dilution of Group holdings	42	–	–	42
Profit attaching to held for sale Japan life business:				
Reclassification from operating profit based on longer-term investment returns	(2)	–	–	(2)
Reclassification from short-term fluctuations in investment returns	19	–	–	19
	17	–	–	17
Profit before tax attributable to shareholders	2,810	(18)	(45)	2,747
Basic EPS based on operating profit based on longer-term investment returns after tax and non-controlling interests	76.9p	–	–	76.9p
Basic EPS based on total profit after tax and non-controlling interests	86.5p	–	(1.4)p	85.1p

D6: Subsidiary undertakings

a Principal subsidiaries

The principal subsidiary undertakings of the Group at 31 December 2013 are disclosed in note 5 'Investments of the Company' of the parent Company financial statements.

Details of all Prudential subsidiaries, joint ventures and associates will be annexed to the next Annual Returns of Prudential plc filed with the UK Registrar of Companies.

b Dividend restrictions and minimum capital requirements

Certain Group subsidiaries and joint ventures are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company.

Under UK company law, dividends can only be paid if a UK company has distributable reserves sufficient to cover dividend. Further, UK insurance companies are required to maintain solvency margins in accordance with the Prudential Regulation Authority rules. The Group UK asset management company, M&G is also required to consider its capital requirements before making any distribution to the parent company.

Jackson is subject to state laws that limit the dividends payable to its parent company based on statutory capital and surplus and prior year earnings. Dividends in excess of these limitations require prior regulatory approval.

The Group's subsidiaries and joint ventures in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves.

The Group capital position statement for life assurance businesses is set out in note C11.1, showing the available capital reflecting the excess of regulatory basis over liabilities for each fund or group of companies determined by reference to the local regulation of the subsidiaries. In addition, disclosure is also provided in note C11.1 of the local capital requirement of each of the funds, or group of companies.

D7: Investments in joint ventures and associates

Joint ventures represent arrangements where the parties who control the arrangement through contractual or other agreement have the rights to the net assets of the arrangements. The Group has shareholder-backed joint venture insurance and asset management business in China with CITIC Group, and in India with ICICI Bank. In addition, there is an asset management joint venture in Hong Kong with BOCI and a Takaful general and life insurance joint venture in Malaysia.

The Group has various joint ventures relating to property investments held by the PAC with-profits fund. The results of these joint ventures are reflected in the movement in the unallocated surplus of the PAC with-profits funds and therefore do not affect shareholders' results.

As a consequence of adoption of IFRS 11 'Joint Arrangements' from 1 January 2013, the Group's joint ventures are accounted for using the equity method. For these operations the net of tax results are reflected in the Group's profit before tax.

The investments in these joint ventures have the same accounting year end as the Group, except for joint ventures in India. Although these entities 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.

The Group has two associates; PruHealth and PPM South Africa that are also accounted for under the equity method. In addition, the Group has 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. As allowed under IAS 28, these investments are accounted for as investments in associates and are carried at fair value through profit and loss. The aggregate fair value of associates carried at fair value through profit and loss where there are published price quotations is approximately £0.5 billion at 31 December 2013 (2012: £0.8 billion).

The Group's share of the profits, net of related tax, and carrying amount of interest in joint ventures and associates, which are equity accounted as shown in the consolidated income statement comprises the following:

	Joint ventures		Associates	
	2013 £m	**2012** £m	**2013** £m	**2012** £m
Shareholder-backed business	**52**	98	**7**	10
PAC with-profits fund (prior to offsetting effect in movement in unallocated surplus)	**88**	27	**–**	–
Total	**140**	125	**7**	10

There is no other comprehensive income in the joint ventures and associates. There have been no unrecognised share of losses of a joint venture or associate that the Group has stopped recognising in the total income.

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.

D8: Related party transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

In addition, the Company has transactions and outstanding balances with certain unit trusts, Open-Ended Investment Companies (OEICs), collateralised debt obligations and similar entities which are not consolidated and where a Group company acts as manager which are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's statement of financial position sheet at fair value or amortised cost in accordance with their IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and paid in respect of the periodic charge and administration fee.

Further, following the adoption of IFRS 11 in 2013 as described in note A2, the Group's investments in joint ventures are now accounted for on an equity method basis. Previously, the assets and liabilities of these joint ventures were proportionally consolidated by the Group with any of their intra-group transactions eliminated on consolidation. There are no material transactions between these joint ventures and other Group companies.

Executive officers and directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In 2013 and 2012, other transactions with directors were not deemed to be significant both by virtue of their size and in the context of the directors' financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

Apart from these transactions with directors, no director had interests in shares, transactions or arrangements that require disclosure, other than those given in the directors' remuneration report. Key management remuneration is disclosed in note B3.3.

D: Other notes continued

D9: Commitments

Operating leases and capital commitments

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

	2013 £m	**2012*** £m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:		
Not later than 1 year	110	68
Later than 1 year and not later than 5 years	308	196
Later than 5 years	333	116
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings	20	18
Minimum lease rental payments included in consolidated income statement	92	73

* The 2012 comparative results have been adjusted retrospectively from those previously published for the application of the new accounting standards described in note A2.

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment properties at 31 December 2013 were £92 million (2012: £5 million).