

PRUDENTIAL PLC  
Form 6-K  
March 14, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of March, 2017

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,  
LONDON, EC4R 0HH, ENGLAND  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports  
under cover Form 20-F or Form 40-F.

Form 20-F X      Form 40-F

Indicate by check mark whether the registrant by furnishing the information  
contained in this Form is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes      No X

If "Yes" is marked, indicate below the file number assigned to the registrant  
in connection with Rule 12g3-2(b): 82-

IFRS Disclosure and Additional Unaudited Financial Information  
Prudential plc 2016 results  
International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2016 £m	2015 £m
		38,981	36,663

Gross premiums earned		
Outward reinsurance premiums	(2,020)	(1,157)
Earned premiums, net of reinsurance	36,961	35,506
Investment return	32,511	3,304
Other income	2,370	2,495
Total revenue, net of reinsurance	71,842	41,305
Benefits and claims	(60,948)	(30,547)
Outward reinsurers' share of benefit and claims	2,412	1,389
Movement in unallocated surplus of with-profits funds	(830)	(498)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(59,366)	(29,656)
Acquisition costs and other expenditure	B3 (8,848)	(8,208)
Finance costs:		
interest on core structural borrowings of shareholder-financed operations	(360)	(312)
Remeasurement of carrying value of Korea life business classified as held for sale	(238)	-
Disposal of Japan life business - cumulative exchange loss recycled from other comprehensive income	-	(46)
Total charges, net of reinsurance	(68,812)	(38,222)
Share of profits from joint ventures and associates, net of related tax	182	238
Profit before tax (being tax attributable to shareholders' and	3,212	3,321

policyholders' returns)*			
Less tax charge attributable to policyholders' returns		(937)	(173)
Profit before tax attributable to shareholders	B1.1	2,275	3,148
Total tax charge attributable to policyholders and shareholders	B5	(1,291)	(742)
Adjustment to remove tax charge attributable to policyholders' returns		937	173
Tax charge attributable to shareholders' returns	B5	(354)	(569)
Profit for the year attributable to equity holders of the Company		1,921	2,579

Earnings per share (in pence)	2016	2015
Based on profit attributable to the equity holders of the Company:		
Basic	75.0p	101.0p
Diluted	75.0p	100.9p

Dividends per share (in pence)	2016	2015
Dividends relating to reporting year:	B7	
First interim ordinary dividend	12.93p	12.31p
Second interim ordinary dividend	30.57p	26.47p
Special dividend	-	10.00p
Total	43.50p	48.78p
Dividends paid in reporting year:	B7	
Current year first interim ordinary dividend	12.93p	12.31p
Second interim ordinary dividend/final ordinary dividend for prior year	26.47p	25.74p
Special dividend	10.00p	-
Total	49.40p	38.05p

Edgar Filing: PRUDENTIAL PLC - Form 6-K

\* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure is not representative of pre-tax profits attributable to shareholders. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders.

International Financial Reporting Standards (IFRS) Basis Results  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2016 £m	2015 £m
Profit for the year		1,921	2,579
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		1,148	68
Cumulative exchange loss of sold Japan life business recycled through profit or loss		-	46
Related tax		13	4
		1,161	118
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding gains (losses) arising during the year		241	(1,256)
Deduct net gains included in the income statement on disposal and impairment		(269)	(49)
Total	C3.2(c)	(28)	(1,305)
Related change in amortisation of deferred acquisition costs	C5 (b)	76	337
Related tax		(17)	339
		31	(629)
Total		1,192	(511)
Items that will not be reclassified to profit or loss			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Gross		(107)	27
Related tax		14	(5)
		(93)	22
Other comprehensive income (loss) for the year, net of related tax		1,099	(489)
Total comprehensive income for the year attributable to the equity holders of the Company		3,020	2,090

International Financial Reporting Standards (IFRS) Basis Results  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Year ended 31 December 2016 £m

	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
	note C10	note C10							
Reserves									
Profit for the year	-	-	1,921	-	-	-	1,921	-	1,921
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax	-	-	-	1,161	-	-	1,161	-	1,161
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax	-	-	-	-	-	31	31	-	31
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax	-	-	(93)	-	-	-	(93)	-	(93)
Total other comprehensive income (loss)	-	-	(93)	1,161	31	31	1,099	-	1,099
Total comprehensive income for the year	-	-	1,828	1,161	31	31	3,020	-	3,020
Dividends	B7	-	-	(1,267)	-	-	(1,267)	-	(1,267)
Reserve movements in respect of share-based payments	-	-	(51)	-	-	-	(51)	-	(51)
Share capital and share premium									
New share capital subscribed	C10	1	12	-	-	-	13	-	13
Treasury shares									
Movement in own shares in respect of share-based payment plans	-	-	2	-	-	-	2	-	2
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(6)	-	-	-	(6)	-	(6)
Net increase in equity	1	12	506	1,161	31	31	1,711	-	1,711

Edgar Filing: PRUDENTIAL PLC - Form 6-K

At beginning of year	128	1,915	10,436	149	327	12,955	1	12,956
At end of year	129	1,927	10,942	1,310	358	14,666	1	14,667

International Financial Reporting Standards (IFRS) Basis Results  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December 2015 £m							
	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Note	note C10	note C10						
Reserves								
Profit for the year	-	-	2,579	-	-	2,579	-	2,579
Other comprehensive income:								
Exchange movements on foreign operations and net investment hedges, net of related tax	-	-	-	118	-	118	-	118
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax	-	-	-	-	(629)	(629)	-	(629)
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax	-	-	22	-	-	22	-	22
Total other comprehensive income (loss)	-	-	22	118	(629)	(489)	-	(489)
Total comprehensive income for the year	-	-	2,601	118	(629)	2,090	-	2,090
Dividends	B7	-	(974)	-	-	(974)	-	(974)
Reserve movements in respect of share-based payments	-	-	39	-	-	39	-	39
Share capital and share premium								
New share capital subscribed	C10	-	7	-	-	7	-	7
Treasury shares	-	-	(38)	-	-	(38)	-	(38)

Movement in own shares  
in respect of share-based  
payment plans

Movement in Prudential  
plc shares purchased by  
unit trusts consolidated  
under IFRS

Net increase in equity	-	7	1,648	118	(629)	1,144	-	1,144
At beginning of year	128	1,908	8,788	31	956	11,811	1	11,812
At end of year	128	1,915	10,436	149	327	12,955	1	12,956

International Financial Reporting Standards (IFRS) Basis Results  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2016 £m	2015 £m
Assets			
Goodwill	C5(a)	1,628	1,648
Deferred acquisition costs and other intangible assets	C5(b)	10,807	8,472
Property, plant and equipment		743	1,197
Reinsurers' share of insurance contract liabilities		10,051	7,903
Deferred tax assets	C8	4,315	2,819
Current tax recoverable		440	477
Accrued investment income		3,153	2,751
Other debtors		3,019	1,955
Investment properties		14,646	13,422
Investment in joint ventures and associates accounted for using the equity method		1,273	1,034
Loans	C3.3	15,173	12,958
Equity securities and portfolio holdings in unit trusts		198,552	157,453
Debt securities	C3.2	170,458	147,671
Derivative assets		3,936	2,958
Other investments		5,465	4,395
Deposits		12,185	12,088
Assets held for sale	D1	4,589	2
Cash and cash equivalents		10,065	7,782
Total assets	C1	470,498	386,985

Equity			
Shareholders' equity		14,666	12,955
Non-controlling interests		1	1
Total equity		14,667	12,956
Liabilities			
Insurance contract liabilities	C4.1	316,436	260,753
Investment contract liabilities with discretionary participation features	C4.1	52,837	42,959
Investment contract liabilities without discretionary participation features	C4.1	19,723	18,806
Unallocated surplus of with-profits funds	C4.1	14,317	13,096
Core structural borrowings of shareholder-financed operations	C6.1	6,798	5,011
Operational borrowings attributable to shareholder-financed operations	C6.2	2,317	1,960
Borrowings attributable to with-profits operations	C6.2	1,349	1,332
Obligations under funding, securities lending and sale and repurchase agreements		5,031	3,765
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		8,687	7,873
Deferred tax liabilities	C8	5,370	4,010
Current tax liabilities		649	325
Accruals, deferred income and other liabilities		13,825	10,416
Provisions		947	604



Derivative liabilities		3,252	3,119
Liabilities held for sale	D1	4,293	-
Total liabilities	C1	455,831	374,029

Total equity and liabilities		470,498	386,985
------------------------------	--	---------	---------

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,545 million (2015: £5,995 million) of lent securities and assets subject to repurchase agreements.

#### International Financial Reporting Standards (IFRS) Basis Results CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)		3,212	3,321
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(37,824)	(6,814)
Other non-investment and non-cash assets		(2,490)	(1,063)
Policyholder liabilities (including unallocated surplus)		31,135	6,067
Other liabilities (including operational borrowings)		7,861	1,761
Interest income and expense and dividend income included in result before tax		(9,749)	(8,726)
Other non-cash itemsnote (ii)		834	234
Operating cash items:			
Interest receipts		7,886	7,316
Dividend receipts		2,286	1,777
Tax paidnote (v)		(950)	(1,340)
Net cash flows from operating activities		2,201	2,533
Cash flows from investing activities			
Purchases of property, plant and equipment		(348)	(256)
Proceeds from disposal of property, plant and equipment		102	30
Acquisition of subsidiaries and intangibles		(303)	(286)
Sale of businesses		-	43
Net cash flows from investing activities		(549)	(469)
Cash flows from financing activities			
Structural borrowings of the Group:			

C6.1

## Shareholder-financed operations:note

(iii)		
Issue of subordinated debt, net of costs	1,227	590
Interest paid	(335)	(288)
With-profits operations:note (iv)	C6.2	
Interest paid	(9)	(9)
Equity capital:		
Issues of ordinary share capital	13	7
Dividends paid	(1,267)	(974)
Net cash flows from financing activities	(371)	(674)
Net increase in cash and cash equivalents	1,281	1,390
Cash and cash equivalents at beginning of year	7,782	6,409
Effect of exchange rate changes on cash and cash equivalents	1,002	(17)
Cash and cash equivalents at end of year	10,065	7,782

## Notes

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax.

(iii) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

(iv) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(v) Tax paid includes £226 million (2015: £229 million) paid on profits taxable at policyholder rather than shareholder rates.

## International Financial Reporting Standards (IFRS) Basis Results

## NOTES

## A BACKGROUND

## A1 Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS Standards may differ from IFRS Standards issued by the IASB if, at any point in time, new or amended IFRS Standards have not been endorsed by the EU. At 31 December 2016, there were no unendorsed standards effective for the two years ended 31 December 2016 affecting the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2015 with the exception of the adoption of the new and amended accounting standards as described in note A2.

## Exchange rates

The exchange rates applied for balances and transactions in currency other than the presentational currency of the Group, pounds sterling (GBP) were:

	Closing rate at 31 Dec 2016	Average rate for 2016	Closing rate at 31 Dec 2015	Average rate for 2015
Local currency: £				
Hong Kong	9.58	10.52	11.42	11.85
Indonesia	16,647.30	18,026.11	20,317.71	20,476.93
Malaysia	5.54	5.61	6.33	5.97
Singapore	1.79	1.87	2.09	2.1
China	8.59	8.99	9.57	9.61
India	83.86	91.02	97.51	98.08
Vietnam	28,136.99	30,292.79	33,140.64	33,509.21
Thailand	44.25	47.80	53.04	52.38
US	1.24	1.35	1.47	1.53

Certain notes to the financial statements present 2015 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. The auditors have reported on the 2016 statutory accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

#### A2 Adoption of new accounting pronouncements in 2016

The Group has adopted the following new accounting pronouncements which were effective in 2016:

- Annual improvements to IFRSs 2012-2014 cycle;
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38); and
- Disclosure Initiative (Amendments to IAS 1).

The adoption of these pronouncements has had no impact on these financial statements.

#### B EARNINGS PERFORMANCE

##### B1 Analysis of performance by segment

##### B1.1 Segment results - profit before tax

	Note	2016 £m	2015* £m	% 2016 vs 2015		
		AER	CER	2016 vs 2015 AER	2016 vs 2015 CER	
		note (vi)	note (vi)	note (vi)	note (vi)	
Asia operations						
Asia insurance operations*	B4(a)	1,503	1,171	1,303	28%	15%
Eastspring Investments		141	115	128	23%	10%
Total Asia operations		1,644	1,286	1,431	28%	15%
US operations						
Jackson (US insurance operations)		2,052	1,691	1,908	21%	8%
Broker-dealer and asset management		(4)	11	13	(136)%	(131)%
Total US operations		2,048	1,702	1,921	20%	7%

UK operations						
UK insurance operations:	B4(b)					
Long-term business		799	1,167	1,167	(32)%	(32)%
General insurance commissionnote (i)		29	28	28	4%	4%
Total UK insurance operations		828	1,195	1,195	(31)%	(31)%
M&G	B2	425	442	442	(4)%	(4)%
Prudential Capital		27	19	19	42%	42%
Total UK operations		1,280	1,656	1,656	(23)%	(23)%
Total segment profit		4,972	4,644	5,008	7%	(1)%
Other income and expenditure						
Investment return and other income		1	14	14	(93)%	(93)%
Interest payable on core structural borrowings		(360)	(312)	(312)	(15)%	(15)%
Corporate expenditurenote (ii)		(334)	(319)	(319)	(5)%	(5)%
Total		(693)	(617)	(617)	(12)%	(12)%
Solvency II implementation costs		(28)	(43)	(43)	35%	35%
Restructuring costs note (iii)		(38)	(15)	(15)	(153)%	(153)%
Interest received from tax settlement		43	-	-	n/a	n/a
Operating profit based on longer-term investment returns		4,256	3,969	4,333	7%	(2)%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,678)	(755)	(827)	(122)%	(103)%
Amortisation of acquisition accounting adjustmentsnote (iv)		(76)	(76)	(85)	0%	11%
(Loss) profit attaching to the held for sale Korea life business	D1	(227)	56	62	n/a	n/a
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive incomenote (v)		-	(46)	(46)	n/a	n/a
Profit before tax attributable to shareholders		2,275	3,148	3,437	(28)%	(34)%
Tax charge attributable to shareholders' returns		(354)	(569)	(621)	38%	43%
Profit for the year attributable to shareholders		1,921	2,579	2,816	(26)%	(32)%
		2016	2015		%	
				CER	2016 vs 2015 AER	2016 vs 2015 CER
Basic earnings per share (in pence)	B6			note (vi)	note (vi)	note (vi)
Based on operating profit based on longer-term investment returns		131.3p	124.6p	136.0p	5%	(3)%
Based on profit for the year		75.0p	101.0p	110.1p	(26)%	(32)%

\* To facilitate future comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit above.

## Notes

- (i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement, which terminated at the end of 2016.
- (ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.
- (iii) Restructuring costs are incurred in the UK and Asia and represent one-off business development expenses.
- (iv) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.
- (v) On 5 February 2015, the Group completed the sale of its closed book life insurance business in Japan.
- (vi) For definitions of AER and CER refer to note A1.

## B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2016 £m	2015* £m
Insurance operations:		
Asianote (i)	(225)	(137)
USnote (ii)	(1,455)	(424)
UKnote (iii)	198	(120)
Other operationsnot(iv)	(196)	(74)
Total	(1,678)	(755)

\* To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the short-term fluctuations in investment returns attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit.

## Notes

- (i) Asia insurance operations

In Asia, the short-term fluctuations of negative £(225) million (2015: negative £(137) million) principally reflect the impact of changes in interest rates across the region on bonds and, equity market falls in China.

- (ii) US insurance operations

The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £565 million as shown in note C5(b) (2015: £93 million) and comprise amounts in respect of the following items:

	2016 £m	2015 £m
Net equity hedge resultnote (a)	(1,587)	(504)
Other than equity-related derivativesnote (b)	(126)	29
Debt securities note 201 (c)	201	1
Equity-type investments:	35	19

actual less longer-term return		
Other items	22	31
Total	(1,455)	(424)

## Notes

## (a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the measured value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described below.

The result comprises the net effect of:

- 1 The accounting value movements on the variable and fixed index annuity guarantee liabilities. This includes:
  - The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are measured under the US GAAP basis applied for IFRS in a way that is substantially insensitive to the effect of current period equity market and interest rate changes; and
  - The 'not for life' portion of GMWB embedded derivative liabilities which are required to be measured under IAS 39 using a basis under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.
- 2 Adjustments in respect of fee assessments and claim payments;
- 3 Fair value movements on free-standing equity derivatives held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.
- 4 Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

## (b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Accounting effects of the Guaranteed Minimum Income Benefit (GMIB) reinsurance; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above.

The direct GMIB liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled, it is deemed a derivative under IAS 39 which requires fair valuation. The fluctuations for this item therefore include significant accounting mismatches caused by:

Edgar Filing: PRUDENTIAL PLC - Form 6-K

- The fair value movements booked in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business, as well as the fixed annuity business guarantees and durations within the general account;

- Fair value movements on Jackson's debt securities of the general account which are recorded in other comprehensive income rather than the income statement; and

- The mixed measurement model that applies for the GMIB and its reinsurance.

(c) Short-term fluctuations related to debt securities

	2016 £m	2015 £m
Short-term fluctuations relating to debt securities		
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(94)	(54)
Defaults	(4)	-
Bond write-downs	(35)	(37)
Recoveries / reversals	15	18
Total (charges) credits in the year	(118)	(73)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	89	83
	(29)	10
Interest-related realised gains:		
Arising in the year	376	102
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(135)	(108)
	241	(6)
Related amortisation of deferred acquisition costs	(11)	(3)
Total short-term fluctuations related to debt securities	201	1

Note

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2016 is based on an average annual risk margin reserve of 21 basis points (2015: 23 basis points) on average book values of US\$56.4 billion (2015: US\$54.6 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	2016			2015				
	Average book value US\$m	RMR % loss	Annual expected loss US\$m	Average book value US\$m	RMR % loss	Annual expected loss US\$m	£m	£m
A3 or higher	29,051	0.12	(36)	(27)	28,185	0.13	(37)	(24)
Baa1, 2 or 3	25,964	0.24	(62)	(46)	24,768	0.25	(62)	(40)
Ba1, 2 or 3	1,051	1.07	(11)	(8)	1,257	1.17	(15)	(10)
B1, 2 or 3	312	2.95	(9)	(7)	388	3.08	(12)	(8)
Below B3	40	3.81	(2)	(1)	35	3.70	(1)	(1)
Total	56,418	0.21	(120)	(89)	54,633	0.23	(127)	(83)
Related amortisation of deferred acquisition costs (see below)			23	17			24	16
Risk margin reserve charge to operating profit for longer-term credit related losses			(97)	(72)			(103)	(67)

Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related amortisation of deferred acquisition costs.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit for unrealised losses on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £48 million (2015: charge for net unrealised losses £(968) million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(iii) UK insurance operations

The positive short-term fluctuations in investment returns for UK insurance operations of £198 million (2015: negative £(120) million) mainly reflects gains on bonds backing the capital of the shareholder-backed annuity business following the fall in 15-year gilt yields over 2016.

(iv) Other

The negative short-term fluctuations in investment returns for other operations of £(196) million (2015: negative £(74) million) include unrealised value movements on financial instruments driven by the fall in interest rates.

(v) Default losses

The Group incurred default losses of £(4) million on its shareholder-backed debt securities for 2016 wholly in respect of Jackson's portfolio (2015: £nil).

### B1.3 Determining operating segments and performance measure of operating segments

#### Operating segments

The Group's operating segments, determined in accordance with IFRS 8 'Operating Segments', are as follows:

Insurance operations: Asset management operations:

- Asia
- US (Jackson)
- UK
- Eastspring Investments
- US broker-dealer and asset management
- M&G
- Prudential Capital

The Group's operating segments are also its reportable segments for the purposes of internal management reporting. Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes operating profit based on long-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below.
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012;
- Loss attaching to the held for sale Korea life business. See note D1 for further details;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015.

Segment results that are reported to the Group Executive Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asia Regional Head Office.

Determination of operating profit based on longer-term investment returns for investment and liability movements:

(a) General principles

- (i) UK style with-profits business



The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii) Unit-linked business

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii) US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other US GAAP derived principles. These liabilities are subject to an extensive derivative programme to manage equity and, with those of the general account, interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv) Business where policyholder liabilities are sensitive to market conditions

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, some types of business movements in liabilities do require bifurcation to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively.

(v) Other shareholder-financed business

The measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long-term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns.

Debt, equity-type securities and loans

Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

- Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and
- The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2016, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £969 million (2015: £567 million).

Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity are of significance for the US and Asia insurance operations. Different rates apply to different categories of equity-type

securities.

#### Derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of non-equity based derivatives (for example, interest rate swaps and swaptions) whose value movements are excluded from operating profit arises in Jackson, as discussed below in section (c).

#### (b) Asia insurance operations

##### (i) Business where policyholder liabilities are sensitive to market conditions

For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (also applied for IFRS basis) was used. For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

##### (ii) Other Asia shareholder-financed business

#### Debt securities

For this business, the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

#### Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed operations amounted to £1,405 million as at 31 December 2016 (2015: £840 million). The rates of return applied in 2016 ranged from 3.2 per cent to 13.9 per cent (2015: 3.5 per cent to 13.0 per cent) with the rates applied varying by territory. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

#### (c) US Insurance operations

##### (i) Separate account business

For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

##### (ii) US variable and fixed index annuity business

The following value movements for Jackson's variable and fixed index annuity business are excluded from operating profit based on longer-term investment returns. See note B1.2 note (ii):

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the 'not for life' portion of GMWB and fixed index annuity business, and GMIB reinsurance (see below);
- Movements in the accounts carrying value of GMDB and the 'for life' portion of GMWB and GMIB liabilities, for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements;
- A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and
- Related amortisation of deferred acquisition costs for each of the above items.

#### Embedded derivatives for variable annuity guarantee minimum income benefit

The GMIB liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services - Insurance - Separate Accounts (formerly SOP 03-1) under IFRS using 'grandfathered' US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative

under IAS 39, 'Financial Instruments: Recognition and Measurement', and the asset is therefore recognised at fair value. As the GMIB is economically reinsured, the mark-to-market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

The principal example of non-equity based derivatives (for example, interest rate swaps and swaptions) whose value movements are excluded from operating profit, arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson's bond portfolio (for which value movements are booked in the statement of comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as 'grandfathered' under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based embedded derivatives.

(iv) Other US shareholder-financed business

Debt securities

Jackson is the shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as BlackRock Solutions to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2.

Equity-type securities

As at 31 December 2016, the equity-type securities for US insurance non-separate account operations amounted to £1,323 million (2015: £1,004 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2016	2015
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	5.5% to 6.5%	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.5% to 8.5%	7.7% to 8.4%

(d) UK Insurance operations

(i) Shareholder-backed annuity business

For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the 'operating results based on longer-term investment returns'. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business within the non-profit sub-fund of The Prudential Assurance Company (PAC) after adjustments to allocate the following elements of the movement to the category of 'short-term fluctuations in investment returns':

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;
- Credit experience compared with assumptions; and
- Short-term value movements on assets backing the capital of the business.

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared with assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with

management benchmark.

(ii) Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK insurance operations (other than the annuity business) the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

(e) Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses, it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

B2 Profit before tax - asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	2016 £m				2015 £m	
	M&G	Prudential Capital	US	Eastspring Investments	Total	Total
Revenue (excluding NPH broker-dealer fees)						
NPH broker-dealer - feesnote (i)	1,188	62	235	391	1,876	1,964
Gross revenue	1,188	62	785	391	2,426	2,486
Charges (excluding NPH broker-dealer fees)						
NPH broker-dealer - feesnote (i)	(768)	(91)	(239)	(304)	(1,402)	(1,497)
Gross charges	(768)	(91)	(789)	(304)	(1,952)	(2,019)
Share of profit from joint ventures and associates, net of related tax	13	-	-	54	67	55
Profit (loss) before tax	433	(29)	(4)	141	541	522
Comprising: Operating profit based on	425	27	(4)	141	589	587

longer-term investment returns	note					
(ii)						
Short-term fluctuations in investment returns	8	(56)	-	-	(48)	(65)
Profit (loss) before tax	433	(29)	(4)	141	541	522

## Notes

(i) The segment revenue of the Group's asset management operations includes:

NPH broker-dealer fees which represent commissions received that are then paid on to the writing brokers on sales of investment products. To reflect their commercial nature the amounts are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from this item. The presentation in the table above shows separately the amounts attributable to this item so that the underlying revenue and charges can be seen.

(ii) M&G operating profit based on longer-term investment returns:

	2016 £m	2015 £m
Asset management fee income	900	934
Other income	23	5
Staff costs	(332)	(293)
Other costs	(212)	(240)
Underlying profit before performance-related fees	379	406
Share of associate results	13	14
Performance-related fees	33	22
Total M&G operating profit based on longer-term investment returns	425	442

The revenue for M&G of £956 million (2015: £961 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £1,188 million shown in the main table of this note. This is because the £956 million (2015: £961 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

## B3 Acquisition costs and other expenditure

	2016 £m	2015 £m
Acquisition costs incurred for insurance policies	(3,687)	(3,275)
Acquisition costs deferred less amortisation of acquisition costs	923	431
Administration costs and other expenditure	(5,522)	(4,746)

## Edgar Filing: PRUDENTIAL PLC - Form 6-K

Movements in amounts attributable to external unit holders of consolidated investment funds	(562)	(618)
Total acquisition costs and other expenditure	(8,848)	(8,208)

### B4 Effect of changes and other accounting features on insurance assets and liabilities

The following features are of relevance to the determination of the 2016 results:

#### (a) Asia insurance operations

In 2016, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £67 million (2015: £62 million) representing a small number of non-recurring items, including a gain resulting from entering into a reinsurance contract in the year.

#### (b) UK insurance operations

##### Annuity business

##### Allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults.

Prudential Retirement Income Limited (PRIL) was the principal company writing the UK's shareholder-backed annuity business. In 2016, the business of PRIL was transferred into PAC following a Part VII transfer under the Financial Services and Markets Act 2000.

The IFRS credit risk allowance made for the ex-PRIL UK shareholder-backed fixed and linked annuity business equated to 43 basis points at 31 December 2016 (31 December 2015: 43 basis points). The allowance represented 26 per cent of the bond spread over swap rates (31 December 2015: 25 per cent).

The reserves for credit risk allowance at 31 December 2016 for the UK shareholder-backed business (both for ex-PRIL and the legacy PAC shareholder annuity business) were £1.7 billion (31 December 2015: £1.6 billion).

##### Other assumption changes

For the shareholder-backed business, in addition to the movement in the credit risk allowance discussed above, the net effect of routine changes to assumptions in 2016, was a credit of £16 million (2015: credit of £31 million).

##### Longevity reinsurance and other management actions

A number of management actions were taken in 2016 to improve the Solvency II position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £332 million. Similar actions were also taken in 2015.

Of this amount £197 million related to profit from additional longevity reinsurance transactions covering £5.4 billion of annuity liabilities on an IFRS basis, with the balance of £135 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance transactions in 2015 was £231 million, covering £6.4 billion of annuity liabilities (on a Pillar 1 basis). Other asset-related management actions generated a further £169 million in 2015.

At 31 December 2016, longevity reinsurance covered £14.4 billion of IFRS annuity liabilities equivalent to 42 per cent of total annuity liabilities.

##### Review of past annuity sales

Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The review is expected to commence in 2017 and last a period of three years. A provision of £175 million has been established at 31 December 2016 to cover the costs of undertaking the review and any potential redress. The ultimate amount that will be expended by the Group on the review remains uncertain. Although the Group's professional indemnity insurance may mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

### B5 Tax charge

Edgar Filing: PRUDENTIAL PLC - Form 6-K

(a) Total tax charge by nature of expense

The total tax charge in the income statement is as follows:

Tax charge	2016 £m		2015 £m	
	Current tax	Deferred tax	Total	Total
UK tax	(438)	(326)	(764)	(149)
Overseas tax	(939)	412	(527)	(593)
Total tax (charge) credit	(1,377)	86	(1,291)	(742)

The current tax charge of £1,377 million (2015: £734 million) includes £53 million (2015: £35 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below:

Tax charge	2016 £m		2015 £m	
	Current tax	Deferred tax	Total	Total
Tax (charge) to policyholders' returns	(421)	(516)	(937)	(173)
Tax (charge) credit attributable to shareholders	(956)	602	(354)	(569)
Total tax (charge) credit	(1,377)	86	(1,291)	(742)

The principal reason for the increase in the tax charge attributable to policyholders' returns is an increase in realised and unrealised gains on equity and bond investments in the with-profits fund of the main UK insurance business. The principal reason for the decrease in the tax charge attributable to shareholders' returns is a deferred tax credit on derivative fair value movements in the US insurance operations.

(b) Reconciliation of effective tax rate

In the reconciliation below, the expected tax rates reflect the corporate income tax rates that are expected to apply to the taxable profit of the relevant business. Where there are profits of more than one jurisdiction the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit contributing to the aggregate business result. In the column 'Attributable to policyholders', the 100 per cent expected tax rate is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis, the effect of which leaves the profit equal to the tax charge.

	2016 £m				Attributable to shareholders	Attributable to policyholders	Total
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations			
Operating profit based on longer-term investment returns	1,503	2,052	828	(127)	4,256	n/a	n/a
Non-operating (loss) profit	(460)	(1,523)	198	(196)	(1,981)	n/a	n/a
Profit (loss) before tax	1,043	529	1,026	(323)	2,275	937	3,212
Expected tax rate	22%	35%	20%	19%	25%	100%	47%
Tax at the expected rate	229	185	205	(61)	558	937	1,495
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(28)	(18)	(12)	(9)	(67)		(67)

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Deductions not allowable for tax purposes	19	8	7	26	60		60
Items related to taxation of life insurance businesses	(20)	(159)	(1)	-	(180)		(180)
Deferred tax adjustments	(11)	-	2	(14)	(23)		(23)
Effect of results of joint ventures and associates	(29)	-	-	(17)	(46)		(46)
Irrecoverable withholding taxes	-	-	-	36	36		36
Other	-	-	1	(6)	(5)		(5)
Total	(69)	(169)	(3)	16	(225)	-	(225)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	1	(81)	(7)	5	(82)		(82)
Movements in provisions for open tax matters	20	-	-	31	51		51
Impact of changes in local statutory tax rates	-	-	(5)	(1)	(6)		(6)
Write down of Korea life business	58	-	-	-	58		58
Total	79	(81)	(12)	35	21	-	21
Total actual tax charge (credit)	239	(65)	190	(10)	354	937	1,291
Analysed into:							
Tax on operating profit based on longer-term investment returns	254	468	160	12	894	n/a	n/a
Tax on non-operating profit	(15)	(533)	30	(22)	(540)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	23%	19%	(9)%	21%	n/a	n/a
Excluding non-recurring tax reconciling items	16%	27%	21%	18%	22%	n/a	n/a
Total profit	23%	(12)%	19%	3%	16%	100%	40%

The 2016 expected and actual tax rates as shown include the impact of the re-measurement loss on the held for sale Korea life business. The 2016 tax rates for Asia insurance and Group, excluding the impact of the held for sale Korea life business are as follows:

	Asia insurance	Attributable to shareholders
Expected tax rate on total profit	22%	24%
Actual tax rate:		
Operating profit based on longer-term investment returns	17%	21%
Total profit	19%	14%

The more significant reconciling items are explained below:

Asia insurance operations



Edgar Filing: PRUDENTIAL PLC - Form 6-K

The £28 million reconciling item 'income not taxable or taxable at concessionary rates' primarily reflects income taxable at rates lower than the expected rates in Malaysia and Singapore. It is lower than the 2015 adjustment of £42 million due to the absence of non-taxable gains on domestic securities in Taiwan.

The £20 million reconciling item 'items related to taxation of life insurance businesses' reflects where the basis of tax is not the accounting profits, primarily in:

- Hong Kong where the taxable profit is based on the net insurance premiums; and
- Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

There is no significant movement in the reconciling items from 2015.

The £29 million reconciling item 'effect of results of the joint ventures and associates' arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge. The decrease reflects a lower profit from joint ventures and associates in 2016.

The £58 million reconciling item 'write down of Korea life business' reflects the non-tax deductible write down of the held for sale Korea life business.

US insurance operations

The £159 million reconciling item 'items related to taxation of life insurance businesses' reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business.

The £81 million non-recurring reconciling item 'adjustments to tax charge in relation to prior years' arose as a result of the finalisation of the dividend received deduction in the 2015 tax return as compared to the estimate included in the tax charge at 2015.

UK insurance operations

There are no significant reconciling items or significant movements from 2015.

Other operations

The £26 million reconciling item 'deductions not allowable for tax purposes' primarily relates to non-tax deductible foreign exchange movements on debt instruments.

	2015 £m				Attributable to shareholders	Attributable to policyholders	Total
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations			
Operating profit (loss) based on longer-term investment returns	1,171	1,691	1,195	(88)	3,969	n/a	n/a
Non-operating loss	(135)	(492)	(120)	(74)	(821)	n/a	n/a
Profit (loss) before tax	1,036	1,199	1,075	(162)	3,148	173	3,321
Expected tax rate	24%	35%	20%	20%	27%	100%	31%
Tax at the expected rate	249	420	215	(32)	852	173	1,025
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(42)	(10)	(2)	(9)	(63)		(63)
Deductions not allowable for tax purposes	15	5	7	6	33		33
Items related to taxation of life insurance businesses	(20)	(113)	-	-	(133)		(133)
Deferred tax adjustments	10	-	-	(11)	(1)		(1)
Effect of results of joint ventures and associates	(37)	-	-	(13)	(50)		(50)
Irrecoverable withholding taxes	-	-	-	28	28		28
Other	(4)	(1)	6	2	3		3
Total	(78)	(119)	11	3	(183)		(183)

## Effects of non-recurring tax reconciliation items:

Adjustments to tax charge in relation to prior years	5	(65)	(7)	-	(67)		(67)
Movements in provisions for open tax matters	(6)	-	-	(5)	(11)		(11)
Impact of changes in local statutory tax rates	(5)	-	(16)	(1)	(22)		(22)
Total	(6)	(65)	(23)	(6)	(100)		(100)
Total actual tax charge (credit)	165	236	203	(35)	569	173	742
Analysed into:							
Tax on operating profit based on longer-term investment returns	170	408	227	(19)	786	n/a	n/a
Tax on non-operating profit	(5)	(172)	(24)	(16)	(217)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	15%	24%	19%	22%	20%	n/a	n/a
Excluding non-recurring tax reconciling items	15%	28%	21%	15%	22%	n/a	n/a
Total profit	16%	20%	19%	22%	18%	100%	22%

## B6 Earnings per share

	2016		Net of tax £m	Basic earnings per share Pence	Diluted earnings per share Pence
	Before tax Note B1.1 £m	Tax B5 £m			
Based on operating profit based on longer-term investment returns	4,256	(894)	3,362	131.3p	131.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2 (1,678)	519	(1,159)	(45.3)p	(45.2)p
Loss attaching to held for sale Korea life business	D1 (227)	(4)	(231)	(9.0)p	(9.0)p
Amortisation of acquisition accounting adjustments	(76)	25	(51)	(2.0)p	(2.0)p

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Based on profit for the year	2,275	(354)	1,921	75.0p	75.0p
	2015*				
	Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share
	Note B1.1	B5			
	£m	£m	£m	Pence	Pence
Based on operating profit based on longer-term investment returns	3,969	(786)	3,183	124.6p	124.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2 (755)	206	(549)	(21.5)p	(21.5)p
Profit attaching to held for sale Korea life business	D1 56	(14)	42	1.7p	1.7p
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income	(46)	-	(46)	(1.8)p	(1.8)p
Amortisation of acquisition accounting adjustments	(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year	3,148	(569)	2,579	101.0p	100.9p

\* To facilitate comparisons of operating profit based on longer-term investment returns that reflect the Group's retained operations, the results attributable to the held for sale Korea life business are included separately within the supplementary analysis of profit above.

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating earnings per share, which excludes those held in employee share trusts and consolidated unit trusts and OEICs, is set out as below:

	2016	2015
	(millions)	(millions)
Weighted average number of shares for calculation of:		
Basic earnings per share	2,560	2,553
Shares under option at end of year	7	9
Number of shares that would have been issued at fair value on assumed option price	(5)	(6)
Diluted earnings per share	2,562	2,556
B7 Dividends		

Edgar Filing: PRUDENTIAL PLC - Form 6-K

	2016		2015	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
First interim ordinary dividend	12.93p	333	12.31p	315
Second interim ordinary dividend	30.57p	789	26.47p	681
Special dividend	-	-	10.00p	257
Total	43.50p	1,122	48.78p	1,253
Dividends paid in reporting year:				
Current year first interim ordinary dividend	12.93p	332	12.31p	315
Second interim ordinary dividend/final ordinary dividend for prior year	26.47p	679	25.74p	659
Special dividend	10.00p	256	-	-
Total	49.40p	1,267	38.05p	974

Dividend per share

For the year ended 31 December 2015 the second interim ordinary dividend of 26.47 pence per ordinary share and the special dividend of 10.00 pence per ordinary share were paid to eligible shareholders on 20 May 2016. The 2016 first interim ordinary dividend of 12.93 pence per ordinary share was paid to eligible shareholders on 29 September 2016. The second interim ordinary dividend for the year ended 31 December 2016 of 30.57 pence per share will be paid on 19 May 2017 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 31 March 2017 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 26 May 2017. The second interim ordinary dividend will be paid on or about 26 May 2017 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 13 March 2017. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore dollars, will be determined by CDP. Shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C BALANCE SHEET NOTES

C1 Analysis of Group statement of financial position by segment

(a) Position as at 31 December 2016

	2016 £m							Unallo- cated to a segment (central opera- tions)	Elimin- ation of intra- group debtors and creditors	2015 £m Group Total
	Note	Asia	US	UK	M&G	Prudential Capital	US			
By operating segment		C2.1	C2.2	C2.3						
Assets										

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Goodwill	C5(a)	245	-	153	1,153	-	16	61	-	-	1,628	1,648
Deferred acquisition costs and other intangible assets	C5(b)	2,316	8,323	107	8	-	4	3	46	-	10,807	8,472
Property, plant and equipment		121	237	343	5	-	10	3	24	-	743	1,197
Reinsurers' share of insurance contract liabilities		1,539	7,224	2,590	-	-	-	-	-	(1,302)	10,051	7,903
Deferred tax assets	C8	98	3,861	146	23	8	118	9	52	-	4,315	2,819
Current tax recoverable		29	95	283	25	2	6	-	-	-	440	477
Accrued investment income		521	549	1,915	6	20	79	28	35	-	3,153	2,751
Other debtors		2,633	295	2,447	880	788	293	53	5,620	(9,990)	3,019	1,955
Investment properties		5	6	14,635	-	-	-	-	-	-	14,646	13,422
Investment in joint ventures and associates accounted for using the equity method		688	-	409	39	-	-	137	-	-	1,273	1,034
Loans	C3.3	1,303	9,735	3,572	-	563	-	-	-	-	15,173	12,958
Equity securities and portfolio holdings in unit trusts		23,581	120,747	54,037	140	-	-	18	29	-	198,552	157,453
Debt securities	C3.2	36,546	40,745	90,796	-	2,359	-	-	12	-	170,458	147,671
Derivative assets		47	834	2,927	-	124	-	-	4	-	3,936	2,958
Other investments		-	987	4,449	24	-	5	-	-	-	5,465	4,395
Deposits		1,379	-	10,705	-	-	49	46	6	-	12,185	12,088
Assets held for sale	D1	3,863	-	726	-	-	-	-	-	-	4,589	2
Cash and cash equivalents		1,995	1,054	4,703	354	1,451	81	162	265	-	10,065	7,782
Total assets	C1	76,909	194,692	194,943	2,657	5,315	661	520	6,093	-	386,985	

(11,292,498)

Total equity		4,993	5,204	5,999	1,820	22	204	383	(3,958)	-	14,667	12,956
Liabilities												
Insurance contract liabilities	C4.1	54,417	174,328	88,993	-	-	-	-	-	(1,302)	16,436	260,753
Investment contract liabilities with discretionary participation features	C4.1	347	-	52,490	-	-	-	-	-	-	52,837	42,959
Investment contract liabilities without discretionary participation features	C4.1	254	3,298	16,171	-	-	-	-	-	-	19,723	18,806
Unallocated surplus of with-profits funds	C4.1	2,667	-	11,650	-	-	-	-	-	-	14,317	13,096
Core structural borrowings of shareholder-financed operations		-	202	-	-	275	-	-	6,321	-	6,798	5,011
Operational borrowings attributable to shareholder-financed operations		19	480	167	-	-	-	-	1,651	-	2,317	1,960
Borrowings attributable to with-profits operations		4	-	1,345	-	-	-	-	-	-	1,349	1,332
Obligations under funding, securities lending and sale and repurchase agreements		-	3,534	1,497	-	-	-	-	-	-	5,031	3,765
Net asset value attributable to unit holders of		3,093	-	5,594	-	-	-	-	-	-	8,687	7,873

Edgar Filing: PRUDENTIAL PLC - Form 6-K

consolidated unit trusts and similar funds												
Deferred tax liabilities	C8	935	2,831	1,577	15	-	1	-	11	-	5,370	4,010
Current tax liabilities		113	-	447	64	7	-	12	6	-	649	325
Accruals deferred income and other liabilities		5,887	4,749	6,176	553	4,396	455	53	1,546	(9,990)	13,825	10,416
Provisions		157	2	442	205	-	1	72	68	-	947	604
Derivative liabilities		265	64	1,860	-	615	-	-	448	-	3,252	3,119
Liabilities held for sale	D1	3,758	-	535	-	-	-	-	-	-	4,293	-
Total liabilities	C1	71,916	189,488	188,944	837	5,293	457	137	10,051	(11,294)	155,831	374,029
Total equity and liabilities		76,909	194,692	194,943	2,657	5,315	661	520	6,093	(11,294)	170,498	386,985

C2 Analysis of segment statement of financial position by business type

C2.1 Asia insurance operations

	Note	31 Dec 2016 £m				31 Dec 2015 £m	
		With-profits business	Unit-linked assets and liabilities	Other business	Total	Total	Total
Assets							
Goodwill		-	-	245	245	233	
Deferred acquisition costs and other intangible assets		28	-	2,288	2,316	2,145	
Property, plant and equipment		89	-	32	121	73	
Reinsurers' share of insurance contract liabilities		43	-	1,496	1,539	797	
Deferred tax assets		-	-	98	98	66	
Current tax recoverable		-	2	27	29	34	
Accrued investment income		238	49	234	521	505	
Other debtors		1,960	147	526	2,633	2,212	
Investment properties		-	-	5	5	5	
Investment in joint ventures and associates accounted for using the equity		-	-	688	688	475	

method						
Loans	C3.3	690	-	613	1,303	1,084
Equity securities and portfolio holdings in unit trusts		10,737	11,439	1,405	23,581	18,532
Debt securities	C3.2	21,861	3,321	11,364	36,546	28,292
Derivative assets		27	-	20	47	57
Deposits		319	403	657	1,379	773
Assets held for sale	D1	-	2,877	986	3,863	-
Cash and cash equivalents		816	222	957	1,995	2,064
Total assets		36,808	18,460	21,641	76,909	57,347
Total equity		-	-	4,993	4,993	3,957
Liabilities						
Insurance contract liabilities		28,221	14,035	12,161	54,417	42,084
Investment contract liabilities with discretionary participation features	C4.1	347	-	-	347	251
Investment contract liabilities without discretionary participation features	C4.1	-	254	-	254	181
Unallocated surplus of with-profits funds		2,667	-	-	2,667	2,553
Operational borrowings attributable to shareholder-financed operations		-	12	7	19	-
Borrowings attributable to with-profits operations		4	-	-	4	-
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		1,770	1,144	179	3,093	2,802
Deferred tax liabilities		639	25	271	935	734
Current tax liabilities		35	-	78	113	50
Accruals, deferred income and other liabilities		2,837	108	2,942	5,887	4,476
Provisions		65	-	92	157	119
Derivative liabilities		223	5	37	265	140
Liabilities held for sale	D1	-	2,877	881	3,758	-



Edgar Filing: PRUDENTIAL PLC - Form 6-K

Total liabilities	36,808	18,460	16,648	71,916	53,390
Total equity and liabilities	36,808	18,460	21,641	76,909	57,347

Note

The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. Assets and liabilities of other participating business are included in the column for 'Other business'.

C2.2 US insurance operations

	31 Dec 2016 £m		31 Dec 2015 £m	
	Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	Total	Total
Assets				
Deferred acquisition costs and other intangible assets	-	8,323	8,323	6,168
Property, plant and equipment	-	237	237	192
Reinsurers' share of insurance contract liabilities	-	7,224	7,224	6,211
Deferred tax assets	-	3,861	3,861	2,448
Current tax recoverable	-	95	95	307
Accrued investment income	-	549	549	473
Other debtors	-	295	295	22
Investment properties	-	6	6	5
Loans	C3.3 -	9,735	9,735	7,418
Equity securities and portfolio holdings in unit trusts	120,411	336	120,747	91,216
Debt securities	C3.2 -	40,745	40,745	34,071
Derivative assets	-	834	834	905
Other investments	-	987	987	810
Cash and cash equivalents	-	1,054	1,054	1,405
Total assets	120,411	74,281	194,692	151,651
Total equity	-	5,204	5,204	4,154
Liabilities				
Insurance contract liabilities	120,411	53,917	174,328	136,129
Investment contract liabilities without discretionary participation features	C4.1 -	3,298	3,298	2,784

Core structural borrowings of shareholder-financed operations	-	202	202	169
Operational borrowings attributable to shareholder-financed operations	-	480	480	66
Obligations under funding, securities lending and sale and repurchase agreements	-	3,534	3,534	1,914
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	-	-	-	22
Deferred tax liabilities	-	2,831	2,831	2,086
Current tax liabilities	-	-	-	3
Accruals, deferred income and other liabilities	-	4,749	4,749	4,069
Provisions	-	2	2	6
Derivative liabilities	-	64	64	249
Total liabilities	120,411	69,077	189,488	147,497
Total equity and liabilities	120,411	74,281	194,692	151,651

## C2.3 UK insurance operations

	31 Dec 2016 £m			31 Dec 2015 £m		
		Other funds and subsidiaries				
		Unit-linked and	Annuity			
	With-profits sub-funds	assets and liabilities	other long-term business	Total	Total	Total
By operating segment	Note					
Assets	note (i)					
Goodwill	153	-	-	-	153	185
Deferred acquisition costs and other intangible assets	25	-	82	82	107	91
Property, plant and equipment	325	-	18	18	343	798
	1,352	134	1,104	1,238	2,590	2,156

Reinsurers' share of insurance contract liabilities						
Deferred tax assets	82	-	64	64	146	132
Current tax recoverable	1	-	282	282	283	135
Accrued investment income	1,227	101	587	688	1,915	1,622
Other debtors	1,436	322	689	1,011	2,447	2,498
Investment properties	12,391	661	1,583	2,244	14,635	13,412
Investment in joint ventures and associates accounted for using the equity method	409	-	-	-	409	434
Loans	C3.3 1,892	-	1,680	1,680	3,572	3,571
Equity securities and portfolio holdings in unit trusts	38,803	15,183	51	15,234	54,037	47,593
Debt securities	C3.2 48,936	6,277	35,583	41,860	90,796	83,101
Derivative assets	2,388	14	525	539	2,927	1,930
Other investments	4,443	5	1	6	4,449	3,556
Deposits	8,464	1,009	1,232	2,241	10,705	11,226
Assets held for sale (ii)	726	-	-	-	726	2
Cash and cash equivalents	3,209	694	800	1,494	4,703	2,880
Total assets	126,262	24,400	44,281	68,681	194,943	175,322
Total equity	-	-	5,999	5,999	5,999	5,140
Liabilities						
Insurance contract liabilities	C4.1 49,001	6,029	33,963	39,992	88,993	83,801
Investment contract liabilities with discretionary participation features	C4.1 52,477	-	13	13	52,490	42,708
Investment contract liabilities without discretionary participation features	C4.1 18	16,090	63	16,153	16,171	15,841
Unallocated surplus of with-profits funds	C4.1 11,650	-	-	-	11,650	10,543
Operational borrowings attributable to shareholder-financed operations	-	4	163	167	167	179
Borrowings attributable to with-profits operations	1,345	-	-	-	1,345	1,332

Obligations under funding, securities lending and sale and repurchase agreements	757	-	740	740	1,497	1,651
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,513	2,066	15	2,081	5,594	5,049
Deferred tax liabilities	1,279	-	298	298	1,577	1,162
Current tax liabilities	90	59	298	357	447	203
Accruals deferred income and other liabilities	4,649	129	1,398	1,527	6,176	5,430
Provisions	95	-	347	347	442	158
Derivative liabilities	853	23	984	1,007	1,860	2,125
Liabilities held for sale note (ii)	535	-	-	-	535	-
Total liabilities	126,262	24,400	38,282	62,682	188,944	170,182
Total equity and liabilities	126,262	24,400	44,281	68,681	194,943	175,322

#### Note

(i) Includes the Scottish Amicable Insurance Fund which, at 31 December 2016 have total assets and liabilities of £6,101 million (2015: £6,230 million). The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The PAC with-profits fund includes £11.2 billion (2015: £10.8 billion) of non-profits annuities liabilities.

(ii) The assets and liabilities held for sale for the UK insurance operations at 31 December 2016 comprise the investment properties and consolidated venture investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the year end.

#### C3 Assets and liabilities

##### C3.1 Group assets and liabilities - measurement

###### (a) Determination of fair value

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments or by using quotations from independent third parties such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

The loans and receivables have been shown net of provisions for impairment. The fair value of loans have been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest where applicable.

The fair value of investment properties is based on market values as assessed by professionally qualified external valuers or by the Group's qualified surveyors.

The fair value of the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties.

The fair value of financial liabilities (other than derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

(b) Fair value measurement hierarchy of Group assets and liabilities

Assets and liabilities carried at fair value on the statement of financial position

The table below shows the assets and liabilities carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

Financial instruments at fair value

	31 Dec 2016 £m			Total
	Level 1 Quoted prices (unadjusted) in active markets	Level 2 Valuation based on significant observable market inputs	Level 3 Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	-	-	27	27
Equity securities and portfolio holdings in unit trusts	45,181	3,669	690	49,540
Debt securities	26,227	43,880	690	70,797
Other investments (including derivative assets)	58	3,357	3,443	6,858
Derivative liabilities	(51)	(1,025)	-	(1,076)
Total financial investments, net of derivative liabilities	71,415	49,881	4,850	126,146
Percentage of total	56%	40%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	146,637	374	22	147,033
Debt securities	5,136	4,462	-	9,598
Other investments (including derivative assets)	6	8	5	19
Derivative liabilities	(4)	(24)	-	(28)
	151,775	4,820	27	156,622

Total financial investments, net of derivative liabilities				
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	-	276	2,672	2,948
Equity securities and portfolio holdings in unit trusts	1,966	3	10	1,979
Debt securities	21,896	67,915	252	90,063
Other investments (including derivative assets)	-	1,492	1,032	2,524
Derivative liabilities	(9)	(1,623)	(516)	(2,148)
Total financial investments, net of derivative liabilities	23,853	68,063	3,450	95,366
Percentage of total	25%	71%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	276	2,699	2,975
Equity securities and portfolio holdings in unit trusts	193,784	4,046	722	198,552
Debt securities	53,259	116,257	942	170,458
Other investments (including derivative assets)	64	4,857	4,480	9,401
Derivative liabilities	(64)	(2,672)	(516)	(3,252)
Total financial investments, net of derivative liabilities	247,043	122,764	8,327	378,134
Investment contract liabilities without discretionary participation features held at fair value	-	(16,425)	-	(16,425)
Net asset value attributable to unit holders of	(4,217)	(3,587)	(883)	(8,687)

consolidated unit trusts and similar funds				
Other financial liabilities held at fair value	-	(385)	(2,851)	(3,236)
Total financial instruments at fair value	242,826	102,367	4,593	349,786
Percentage of total	70%	29%	1%	100%

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £40,645 million (2015: £33,984 million) of debt securities classified as available-for-sale.

In addition to the financial instruments shown above, the assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a net financial instruments balance of £3,200 million, primarily for equity securities and debt securities. Of this amount, £2,763 million was classified as level 1 and £437 million as level 2.

	31 Dec 2015 £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	35,441	3,200	554	39,195
Debt securities	20,312	40,033	525	60,870
Other investments (including derivative assets)	85	1,589	3,371	5,045
Derivative liabilities	(110)	(1,526)	-	(1,636)
Total financial investments, net of derivative liabilities	55,728	43,296	4,450	103,474
Percentage of total	54%	42%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	116,691	354	22	117,067

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Debt securities	4,350	4,940	-	9,290
Other investments (including derivative assets)	5	20	4	29
Derivative liabilities	(2)	(16)	-	(18)
Total financial investments, net of derivative liabilities	121,044	5,298	26	126,368
Percentage of total	96%	4%	0%	100%
Non-linked shareholder-backed Loans	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	1,150	10	31	1,191
Debt securities	17,767	59,491	253	77,511
Other investments (including derivative assets)	-	1,378	901	2,279
Derivative liabilities	-	(1,112)	(353)	(1,465)
Total financial investments, net of derivative liabilities	18,917	60,022	3,015	81,954
Percentage of total	23%	73%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total Loans	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	153,282	3,564	607	157,453
Debt securities	42,429	104,464	778	147,671
Other investments (including derivative assets)	90	2,987	4,276	7,353
Derivative liabilities	(112)	(2,654)	(353)	(3,119)
Total financial investments, net of derivative liabilities	195,689	108,616	7,491	311,796
Investment contracts liabilities without	-	(16,022)	-	(16,022)



discretionary participation features held at fair value				
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,782)	(1,055)	(1,036)	(7,873)
Other financial liabilities held at fair value	-	(322)	(2,347)	(2,669)
Total financial instruments at fair value	189,907	91,217	4,108	285,232
Percentage of total	67%	32%	1%	100%

Investment properties at fair value

	31 December £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
2016	-	-	14,646	14,646
2015	-	-	13,422	13,422

(c) Valuation approach for level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples

of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £116,257 million at 31 December 2016 (2015: £104,464 million), £12,708 million are valued internally (2015: £10,331 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d) Fair value measurements for level 3 fair valued assets and liabilities

Valuation approach for level 3 fair valued assets and liabilities

Financial instruments at fair value

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Group's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

In accordance with the Group's risk management framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

At 31 December 2016, the Group held £4,593 million (2015: £4,108 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2015: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,672 million at 31 December 2016 (2015: £2,183 million), measured as the loan outstanding balance, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,851 million at 31 December 2016 (2015: £2,347 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(179) million (2015: £(164) million), the level 3 fair valued financial assets net of financial liabilities were £4,772 million (2015: £4,272 million). Of this amount, a net asset of £72 million (2015: net liability of £(77) million) was internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2015: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability were:

(a) Debt securities of £422 million (2015: £381 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).

(b) Private equity and venture investments of £956 million (2015: £852 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.

(c) Liabilities of £(883) million (2015: £(1,013) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.

(d) Derivative liabilities of £(516) million (2015: £(353) million) which are valued internally using standard market practices but are subject to independent assessment against external counterparties' valuations.

(e) Other sundry individual financial investments of £93 million (2015: £56 million).

Of the internally valued net asset referred to above of £72 million (2015: net liability of £(77) million):

(a) A net asset of £315 million (2015: £29 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.

(b) A net liability of £(243) million (2015: £(106) million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £24 million (2015: £11 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £24 million (2015: a decrease of £10 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and no impact (2015: a decrease of £1 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Other assets at fair value - investment properties

The investment properties of the Group are principally held by the UK insurance operations that are externally valued by professionally qualified external valuers using the Royal Institution of Chartered Surveyors (RICS) valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenant and location. The variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

(e) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

During 2016, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £455 million and transfers from level 2 to level 1 of £902 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, in 2016, the transfers into level 3 were £138 million and the transfers out of level 3 were £394 million. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.

(f) Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions.

### C3.2 Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities.

(a) Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard and Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. In the table below, AAA is the highest possible rating.

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB. Debt securities with no external credit rating are classified as "other".

	2016 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	3,183	8,522	3,560	2,996	1,887	1,713	21,861
Unit-linked	448	112	525	1,321	494	421	3,321
Non-linked shareholder-backed	1,082	2,435	2,864	2,388	1,680	915	11,364
US							
Non-linked shareholder-backed	445	7,932	10,609	13,950	1,009	6,800	40,745
UK							
With-profits	5,740	9,746	10,679	12,798	3,289	6,684	48,936
Unit-linked	461	2,660	1,158	1,699	212	87	6,277
Non-linked shareholder-backed	4,238	10,371	10,558	4,515	397	5,504	35,583
Other operations	830	1,190	242	97	10	2	2,371
Total debt securities	16,427	42,968	40,195	39,764	8,978	22,126	170,458

	2015 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	2,050	6,212	2,463	2,238	1,879	1,493	16,335
Unit-linked	333	404	420	1,050	203	399	2,809
Non-linked shareholder-backed	700	2,626	1,919	1,736	1,223	944	9,148
US							
Non-linked shareholder-backed	1,209	5,563	8,767	11,623	832	6,077	34,071
UK							
With-profits	5,657	8,318	9,557	12,241	2,673	6,089	44,535
Unit-linked	1,101	1,842	1,164	1,999	272	103	6,481
Non-linked shareholder-backed	4,760	9,022	8,735	4,994	384	4,190	32,085
Other operations	1,686	119	285	101	14	2	2,207
Total debt securities	17,496	34,106	33,310	35,982	7,480	19,297	147,671

The credit ratings, information or data contained in this report which are attributed and specifically provided by S&P, Moody's and Fitch Solutions and their respective affiliates and suppliers ('Content Providers') is referred to here as the 'Content'. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability an investment or security and should not be relied on as investment advice.

Securities with credit ratings classified as 'Other' can be further analysed as follows:

	2016 £m	2015 £m
Asia - non-linked shareholder-backed Internally rated		

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Government bonds	63	162
Corporate bonds - rated as investment grade by local external ratings agencies	757	481
Other	95	301
Total Asia non-linked shareholder-backed	915	944

US	Mortgage-backed securities	Other securities	2016 Total	2015 Total
Implicit ratings of other US debt securities based on NAIC* valuations (see below)				
NAIC 1	2,587	2,172	4,759	4,334
NAIC 2	8	1,901	1,909	1,594
NAIC 3-6	12	120	132	149
Total US	2,607	4,193	6,800	6,077

\* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories ranging from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.

	2016 £m	2015 £m
UK		
Internal ratings or unrated		
AAA to A-	6,939	5,570
BBB to B-	3,257	3,234
Below B- or unrated	2,079	1,578
Total UK	12,275	10,382

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a debt securities balance of £652 million.

(b) Additional analysis of US insurance operations debt securities

	2016 £m	2015 £m
Corporate and government security and commercial loans:		
Government	5,856	4,242
Publicly traded and SEC Rule 144A securities*	25,992	21,776
Non-SEC Rule 144A securities	4,576	3,733
Asset backed securities (see note (e))	4,321	4,320
Total US debt securities†	40,745	34,071

\* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and

efficient institutional resale market for unregistered securities.

† Debt securities for US operations included in the statement of financial position comprise:

	2016 £m	2015 £m
Available-for-sale	40,645	33,984
Fair value through profit or loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	100	87
	40,745	34,071

Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

(c) Movements in unrealised gains and losses on Jackson available-for-sale securities

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £592 million to a net unrealised gain of £676 million as analysed in the table below.

	2016	Foreign exchange translation	Changes in unrealised appreciation**	2015
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	14,617			13,163
Unrealised loss	(675)	(118)	116	(673)
Fair value (as included in statement of financial position)	13,942			12,490
Assets fair valued at or above book value				
Book value*	25,352			20,229
Unrealised gain	1,351	230	(144)	1,265
Fair value (as included in statement of financial position)	26,703			21,494
Total				
Book value*	39,969			33,392
Net unrealised gain	676	112	(28)	592
Fair value (as included in the footnote above in the overview table and the statement of financial position)	40,645			33,984

The available-for-sale debt securities of Jackson are analysed into US Treasuries and other debt securities as follows:

US Treasuries			
Book value*	5,486		3,477
Net unrealised (loss) gain	(412)	(30)	(436) 54
Fair value	5,074		3,531
Other debt securities			
Book value*	34,483		29,915
Net unrealised gain	1,088	142	408 538
Fair value	35,571		30,453
Total debt securities			
Book value*	39,969		33,392

Net unrealised gain (loss) 676 112 (28) 592  
 Fair value 40,645 33,984

\* Book value represents cost/amortised cost of the debt securities.

\*\* Translated at the average rate of US\$1.3546: £1.00.

(d) US debt securities classified as available-for-sale in an unrealised loss position

(i) Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	2016 £m		2015 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	12,326	(405)	11,058	(320)
Between 80% and 90%	1,598	(259)	902	(144)
Below 80%:				
Residential mortgage-backed securities - sub-prime	-	-	4	(1)
Commercial mortgage-backed securities	8	(3)	-	-
Other asset-backed securities	9	(8)	9	(7)
Government bonds	-	-	-	-
Corporates	1	-	517	(201)
	18	(11)	530	(209)
Total	13,942	(675)	12,490	(673)

(ii) Unrealised losses by maturity of security

	2016 £m	2015 £m
1 year to 5 years	(7)	(51)
5 years to 10 years	(118)	(334)
More than 10 years	(510)	(247)
Mortgage-backed and other debt securities	(40)	(41)
Total	(675)	(673)

(iii) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	2016 £m			2015 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(3)	(599)	(602)	(13)	(148)	(161)
6 months to 1 year	-	(2)	(2)	(17)	(332)	(349)
1 year to 2 years	(4)	(27)	(31)	(16)	(63)	(79)
2 years to 3 years	(2)	(1)	(3)	(3)	(38)	(41)
More than 3 years	(2)	(35)	(37)	(3)	(40)	(43)
Total	(11)	(664)	(675)	(52)	(621)	(673)

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Further, the following table shows the age analysis as at 31 December 2016, of the securities whose fair values were below 80 per cent of the book value:

Age analysis	2016 £m		2015 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	1	-	450	(165)
3 months to 6 months	-	-	64	(34)
More than 6 months	17	(11)	16	(10)
	18	(11)	530	(209)

(e) Asset-backed securities

The Group's holdings in Asset-Backed Securities (ABS), which comprise Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Collateralised Debt Obligations (CDO) funds and other asset-backed securities, at 31 December 2016 are as follows:

	2016 £m	2015 £m
Shareholder-backed operations:		
Asia insurance operations note (i)	130	111
US insurance operations note (ii)	4,321	4,320
UK insurance operations (2016: 25% AAA, 40% AA)note (iii)	1,464	1,531
Asset management operationsnote (iv)	771	911
	6,686	6,873
With-profits operations:		
Asia insurance operations note (i)	357	262
UK insurance operations (2016: 55% AAA, 17% AA)note (iii)	5,177	4,600
	5,534	4,862
Total	12,220	11,735

Notes

(i) Asia insurance operations

The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £357 million, 99 per cent (31 December 2015: 84 per cent) are investment grade.

(ii) US insurance operations

US insurance operations' exposure to asset-backed securities at 31 December 2016 comprises:

	2016 £m	2015 £m
RMBS		
RMBS Sub-prime (2016: 2% AAA, 12% AA, 4% A)	180	191
Alt-A (2016: 3% AAA, 6% A)	177	191
Prime including agency (2016: 72% AA, 3% A)	675	902
CMBS (2016: 76% AAA, 16% AA, 5% A)	2,234	2,403
CDO funds (2016: 35% AAA, 5% AA, 23% A), including £nil exposure to sub-prime	50	52
Other ABS (2016: 21% AAA, 18% AA, 52% A), including £129 million exposure to sub-prime	1,005	581
Total	4,321	4,320

(iii) UK insurance operations

The majority of holdings of the shareholder-backed business are UK securities and relate to PAC's annuity business. Of the holdings of the with-profits operations, £1,623 million (2015: £1,140 million) relates to exposure to the US



markets with the remaining exposure being primarily to the UK market.

(iv) Asset management operations

Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £771 million, 95 per cent (2015: 95 per cent) are graded AAA.

(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December 2016 are analysed as follows:

Exposure to sovereign debts

	2016 £m		2015 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	56	61	55	60
Spain	33	18	1	17
France	22	-	19	-
Germany*	573	329	409	358
Other Eurozone	83	33	62	44
Total Eurozone	767	441	546	479
United Kingdom	5,510	2,868	4,997	1,802
United States**	6,861	9,008	3,911	6,893
Other, predominantly Asia	3,979	2,079	3,368	1,737
Total	17,117	14,396	12,822	10,911

\* Including bonds guaranteed by the federal government.

\*\* The exposure to the United States sovereign debt comprises holdings of the US, UK and Asia insurance operations.

Exposure to bank debt securities

	2016 £m							2016 Total £m	2015 Total £m
	Senior debt			Subordinated debt					
	Covered	Senior	Total	Tier 1	Tier 2	Total	subordinated		
Shareholder-backed business			debt			debt			
Italy	-	32	32	-	-	-	32	30	
Spain	148	22	170	-	-	-	170	154	
France	28	53	81	10	75	85	166	226	
Germany	46	4	50	-	74	74	124	130	
Netherlands	-	44	44	-	6	6	50	31	
Other Eurozone	-	19	19	-	-	-	19	31	
Total Eurozone	222	174	396	10	155	165	561	602	
United Kingdom	536	318	854	6	314	320	1,174	957	
United States	-	2,494	2,494	6	184	190	2,684	2,457	
Other, predominantly Asia	17	511	528	76	414	490	1,018	718	
Total	775	3,497	4,272	98	1,067	1,165	5,437	4,734	

With-profits funds

Italy	-	62	62	-	-	-	62	57
Spain	153	60	213	-	-	-	213	182
France	8	140	148	-	65	65	213	250
Germany	96	18	114	-	-	-	114	111
Netherlands	-	189	189	6	7	13	202	205

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Other Eurozone	-	31	31	-	-	-	31	35
Total Eurozone	257	500	757	6	72	78	835	840
United Kingdom	544	400	944	2	450	452	1,396	1,351
United States	-	1,851	1,851	58	320	378	2,229	1,796
Other, including Asia	312	1,035	1,347	220	425	645	1,992	1,656
Total	1,113	3,786	4,899	286	1,267	1,553	6,452	5,643

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

### C3.3 Loans portfolio

#### (a) Overview of loans portfolio

Loans are accounted for at amortised cost net of impairment except for:

- Certain mortgage loans which have been designated at fair value through profit or loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- Certain policy loans of the US insurance operations that are held to back liabilities for funds withheld under reinsurance arrangements and are also accounted on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

	2016 £m				2015 £m			
	Mortgage loans*	Policy loans**	Other loans†	Total	Mortgage loans*	Policy loans**	Other loans†	Total
Asia								
With-profits	-	577	113	690	-	452	88	540
Non-linked shareholder-backed	179	226	208	613	130	269	145	544
US								
Non-linked shareholder-backed	6,055	3,680	-	9,735	4,367	3,051	-	7,418
UK								
With-profits	668	6	1,218	1,892	727	8	1,324	2,059
Non-linked shareholder-backed	1,642	-	38	1,680	1,508	-	4	1,512
Asset management operations	-	-	563	563	-	-	885	885
Total loans securities	8,544	4,489	2,140	15,173	6,732	3,780	2,446	12,958

\* All mortgage loans are secured by properties. In the US, mortgage loans are all commercial mortgage loans that are secured on the following property types: industrial, multi-family residential, suburban office, retail or hotel. By carrying value, 96 per cent of the £1,642 million (2015: 78 per cent of the £1,508 million) mortgage loans held for UK shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 30 per cent (2015: 30 per cent).

\*\* In the US £2,672 million (2015: £2,183 million) policy loans are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

† Other loans held in UK with-profits funds are commercial loans and comprise mainly syndicated loans. The majority of other loans in shareholder-backed business in Asia are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

## (b) Additional information on US loans

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £12.4 million (2015: £8.6 million). The portfolio has a current estimated average loan to value of 59 per cent (2015: 59 per cent).

At 31 December 2016, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (2015: none).

## (c) Loans held by asset management operations

These relate to loans and receivables managed by Prudential Capital. These assets are generally secured but most have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2016 £m	2015 £m
Loans and receivables		
internal ratings:		
AA+ to AA-	29	-
A+ to A-	100	157
BBB+ to BBB-	248	607
BB+ to BB-	185	119
B and other	1	2
Total	563	885

## C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

## C4.1 Movement and duration of liabilities

## C4.1(a) Group overview

## (i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Insurance operations £m			Total
	Asia note C4.1(b)	US note C4.1(c)	UK note C4.1(d)	
At 1 January 2015	45,022	126,746	154,436	326,204
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	38,705	126,746	144,088	309,539
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	-	10,348	12,450
- Group's share of policyholder liabilities of joint ventures and associate§	4,215	-	-	4,215
Net flows:				
Premiums	7,784	16,699	9,692	34,175
Surrenders	(2,550)	(6,759)	(6,363)	(15,672)
Maturities/Deaths	(1,265)	(1,464)	(6,991)	(9,720)
Net flows	3,969	8,476	(3,662)	8,783

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Shareholders' transfers post-tax	(43)	-	(214)	(257)
Investment-related items and other movements	(364)	(3,824)	2,319	(1,869)
Foreign exchange translation differences	194	7,515	14	7,723
As at 31 December 2015/1 January 2016	48,778	138,913	152,893	340,584
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	41,255	138,913	142,350	322,518
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	-	10,543	13,096
- Group's share of policyholder liabilities of joint ventures and associate§	4,970	-	-	4,970
Reclassification of Korea life business as held for sale*	(2,812)	-	-	(2,812)
Net flows:				
Premiums	9,639	14,766	11,129	35,534
Surrenders	(2,299)	(7,872)	(6,821)	(16,992)
Maturities/Deaths	(1,558)	(1,696)	(6,835)	(10,089)
Net flows	5,782	5,198	(2,527)	8,453
Shareholders' transfers post-tax	(44)	-	(215)	(259)
Investment-related items and other movements	2,005	5,690	18,626	26,321
Foreign exchange translation differences	9,075	27,825	527	37,427
At 31 December 2016	62,784	177,626	169,304	409,714
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position¶	53,716	177,626	157,654	388,996
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	-	11,650	14,317
- Group's share of policyholder liabilities of joint ventures and associate§	6,401	-	-	6,401
Average policyholder liability balances†				
2016	51,765	158,270	150,003	360,038
2015	44,573	132,830	143,219	320,622

\* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

† Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the year and exclude unallocated surplus of with-profits funds.

§ The Group's investment in joint ventures and associates are accounted for on an equity method basis in the Group's balance sheet. The Group's share of the policyholder liabilities as shown above relate to life businesses in China, India and of the Takaful business in Malaysia.

¶ The policyholder liabilities of the Asia insurance operations of £53,716 million (2015: £41,255 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,302 million (2015: £1,261 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £55,018 million (2015: £42,516 million).

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above will exclude any deductions for fees/charges. Claims represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Shareholder-backed business £m			
	Asia	US	UK	Total
At 1 January 2015	26,410	126,746	55,009	208,165
Net flows:				
Premiums	4,793	16,699	3,146	24,638
Surrenders	(2,308)	(6,759)	(3,227)	(12,294)
Maturities/Deaths	(618)	(1,464)	(2,613)	(4,695)
Net flowsnote (a)	1,867	8,476	(2,694)	7,649
Investment-related items and other movements	(121)	(3,824)	509	(3,436)
Foreign exchange translation differences	(312)	7,515	-	7,203
At 31 December 2015/1 January 2016	27,844	138,913	52,824	219,581

Comprising:

- Policyholder liabilities on the consolidated statement of financial position	22,874	138,913	52,824	214,611
- Group's share of policyholder liabilities relating to joint ventures	4,970	-	-	4,970

At 1 January 2016	27,844	138,913	52,824	219,581
Reclassification of Korea life business as held for sale*	(2,812)	-	-	(2,812)
Net flows:				
Premiums	4,749	14,766	1,842	21,357
Surrenders	(1,931)	(7,872)	(2,967)	(12,770)
Maturities/Deaths	(732)	(1,696)	(2,521)	(4,949)
Net flowsnote (a)	2,086	5,198	(3,646)	3,638
Investment-related items and other movements	1,116	5,690	6,980	13,786
Foreign exchange translation differences	4,617	27,825	-	32,442
At 31 December 2016	32,851	177,626	56,158	266,635

Comprising:

- Policyholder liabilities on the consolidated statement of financial position	26,450	177,626	56,158	260,234
- Group's share of policyholder liabilities relating to joint ventures	6,401	-	-	6,401

\* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

Note

(a) Including net flows of the Group's insurance joint ventures and associate.

C4.1(b) Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the year to the end of the year is as follows:

	With-profits business £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2015	18,612	16,209	10,201	45,022
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	16,510	13,874	8,321	38,705
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,102	-	-	2,102

Edgar Filing: PRUDENTIAL PLC - Form 6-K

- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	2,335	1,880	4,215
Premiums				
New business	812	1,322	781	2,915
In-force	2,179	1,496	1,194	4,869
	2,991	2,818	1,975	7,784
Surrenders note (c)	(242)	(2,043)	(265)	(2,550)
Maturities/Deaths	(647)	(88)	(530)	(1,265)
Net flows note (b)	2,102	687	1,180	3,969
Shareholders' transfers post-tax	(43)	-	-	(43)
Investment-related items and other movements	(243)	(536)	415	(364)
Foreign exchange translation differences note (a)	506	(394)	82	194
At 31 December 2015/1 January 2016	20,934	15,966	11,878	48,778
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position	18,381	13,355	9,519	41,255
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	-	-	2,553
- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	2,611	2,359	4,970
Reclassification of Korea life business as held for sale*	-	(2,187)	(625)	(2,812)
Premiums				
New business	1,701	921	767	3,389
In-force	3,189	1,447	1,614	6,250
	4,890	2,368	2,381	9,639
Surrenders note (c)	(368)	(1,641)	(290)	(2,299)
Maturities/Deaths	(826)	(78)	(654)	(1,558)
Net flows note (b)	3,696	649	1,437	5,782
Shareholders' transfers post-tax	(44)	-	-	(44)
Investment-related items and other movements note (d)	889	621	495	2,005
Foreign exchange translation differencesnote (a)	4,458	2,458	2,159	9,075
At 31 December 2016note (b)	29,933	17,507	15,344	62,784
Comprising:				
- Policyholder liabilities on the consolidated statement of financial position§	27,266	14,289	12,161	53,716
- Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	-	-	2,667
- Group's share of policyholder liabilities relating to joint ventures and associate‡	-	3,218	3,183	6,401
Average policyholder liability balances†				
2016	22,823	15,643	13,299	51,765
2015	17,446	16,088	11,039	44,573

\* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea. If Korea life business had been excluded from the 2015, the average policyholder liability balance for 2015 would have been £41,814 million in total allocated £17,446 million, £13,940 million and £10,428 million for its with-profits business, unit-linked business and other business, respectively.

† Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the year and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures and associate are accounted for on an equity method basis and the Group's share of the policyholder liabilities as shown above relate to the life businesses in China, India and of the Takaful business in Malaysia.

§ The policyholder liabilities of the with-profits business of £27,266 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,302 million to the Hong Kong with-profits business (2015: £1,261 million). Including this amount the Asia with-profits policyholder liabilities are £28,568 million.

#### Notes

(a) Movements in the year have been translated at the average exchange rates for the year. The closing balance has been translated at the closing spot rates as at the end of the year. Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows have increased by £1,860 million to £5,782 million in 2016 after excluding Korea 2015 net inflows of £47 million from the comparative period reflecting increased flows from new business and growth in the in-force books.

(c) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 7.7 per cent in 2016, compared with 7.6 per cent in 2015 excluding Korea (2015: 8.7 per cent including Korea).

(d) Investment-related items and other movements for 2016 principally represent realised gains on equity markets and bonds during the year. The gains were mixed across the region with the greatest impact on with-profits and unit-linked business.

#### (ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis for 2016 and 2015, taking account of expected future premiums and investment returns:

	2016 £m	2015 £m
Policyholder liabilities	53,716	41,255
Expected maturity:	%	%
0 to 5 years	23	23
5 to 10 years	20	20
10 to 15 years	16	17
15 to 20 years	11	12
20 to 25 years	9	9
Over 25 years	21	19

#### C4.1(c) US insurance operations

##### (i) Analysis of movements in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the year to the end of the year is as follows:

#### US insurance operations

Variable annuity separate account liabilities	Fixed annuity, GIC and other business	Total	
£m	£m	£m	
At 1 January	81,741	45,005	126,746

2015			
Premiums	12,899	3,800	16,699
Surrenders	(4,357)	(2,402)	(6,759)
Maturities/Deaths	(655)	(809)	(1,464)
Net flows note (b)	7,887	589	8,476
Transfers from general to separate account	847	(847)	-
Investment-related items and other movements	(4,351)	527	(3,824)
Foreign exchange translation differences	4,898	2,617	7,515
note (a)			
At 31 December 2015/2016	91,022	47,891	138,913
2016			
Premiums	10,332	4,534	14,766
Surrenders	(4,036)	(2,836)	(7,872)
Maturities/Deaths	(803)	(893)	(1,696)
Net flows note (b)	4,393	805	5,198
Transfers from general to separate account	1,164	(1,164)	-
Investment-related items and other movements	5,246	444	5,690
note (c)			
	18,586	9,239	27,825



Foreign  
exchange  
translation  
differences  
note

(a)

At 31

December 31, 2016 120,411 57,215 177,626

2016

Average  
policyholder  
liability  
balances\*

2016 105,717 52,553 158,270

2015 86,382 46,448 132,830

\* Averages have been based on opening and closing balances.

## Notes

(a) Movements in the year have been translated at an average rate of US\$1.35/£1.00 (2015: US\$1.53/£1.00). The closing balances have been translated at closing rate of US\$1.24/£1.00 (2015: US\$1.47/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b) Net flows were £5,198 million in 2016, reflecting continued strong in-flows into the variable annuity business.

(c) Positive investment-related items and other movements in variable annuity separate account liabilities of £5,246 million for 2016 primarily reflects the increases in equities and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £444 million primarily reflect the increase in guarantee reserve in the year.

## (ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis for 2016 and 2015:

	2016			2015		
	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity separate account liabilities	Total	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity separate account liabilities	Total
	£m	£m	£m	£m	£m	£m
Policyholder liabilities	57,215	120,411	177,626	47,891	91,022	138,913
	%	%	%	%	%	%
Expected maturity:						
0 to 5 years	49	43	45	48	43	44
5 to 10 years	26	29	28	26	28	28
10 to 15 years	11	14	14	12	15	14
15 to 20 years	7	8	7	7	8	8
20 to 25 years	3	4	3	4	4	4
Over 25 years	4	2	3	3	2	2

C4.1(d) UK insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds  
A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations from the beginning of the year to the end of the year is as follows:

	With-profits sub-funds**	Shareholder-backed funds and subsidiaries	Annuity and other long-term business	Total
	£m	Unit-linked liabilities	£m	£m
At 1 January 2015	99,427	23,300	31,709	154,436
Comprising:				
- Policyholder liabilities	89,079	23,300	31,709	144,088
- Unallocated surplus of with-profits funds	10,348	-	-	10,348
Premiums	6,546	1,115	2,031	9,692
Surrenders	(3,136)	(3,168)	(59)	(6,363)
Maturities/Deaths	(4,378)	(573)	(2,040)	(6,991)
Net flows note (a)	(968)	(2,626)	(68)	(3,662)
Shareholders' transfers post-tax	(214)	-	-	(214)
Switches	(189)	189	-	-
Investment-related items and other movements	1,999	579	(259)	2,319
Foreign exchange translation differences	14	-	-	14
At 31 December 2015/1 January 2016	100,069	21,442	31,382	152,893
Comprising:				
- Policyholder liabilities	89,526	21,442	31,382	142,350
- Unallocated surplus of with-profits funds	10,543	-	-	10,543
Premiums	9,287	1,227	615	11,129
Surrenders	(3,854)	(2,889)	(78)	(6,821)
Maturities/Deaths	(4,314)	(583)	(1,938)	(6,835)
Net flows note (a)	1,119	(2,245)	(1,401)	(2,527)
Shareholders' transfers post-tax	(215)	-	-	(215)
Switches	(152)	152	-	-
Investment-related items and other movements note (b)	11,798	2,770	4,058	18,626
Foreign exchange translation differences	527	-	-	527
At 31 December 2016	113,146	22,119	34,039	169,304
Comprising:				
- Policyholder liabilities	101,496	22,119	34,039	157,654
- Unallocated surplus of with-profits funds	11,650	-	-	11,650
Average policyholder liability balances*				
2016	95,511	21,781	32,711	150,003
2015	89,303	22,371	31,545	143,219

\*Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

\*\*Includes the Scottish Amicable Insurance Fund.

Notes

Edgar Filing: PRUDENTIAL PLC - Form 6-K

(a) Net outflows improved from £3,662 million in 2015 to £2,527 million in 2016, due primarily to higher premium flows into our with-profits funds following increased sales into with-profits savings and retirement products. This has been offset by lower premiums into our annuity business following our staged withdrawal from this market in the UK.

(b) Investment-related items and other movements of £18,626 million mainly reflects investment return earned in the year, attributable to policyholders. Gains on shareholder-backed annuity business reflects a fall in bond yields over 2016.

(ii) Duration of liabilities

The following tables show the carrying value of the policyholder liabilities and the maturity profile of the cash flows, on a discounted basis for 2016 and 2015:

	2016 £m									
	With-profits business			Annuity business (Insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investments contracts	Total	
Policyholder liabilities	37,848	52,495	90,343	11,153	33,881	45,034	6,111	16,166	22,277	157,654
	2016 %									
Expected maturity:										
0 to 5 years	37	37	37	29	25	26	40	34	37	34
5 to 10 years	23	29	26	24	22	23	23	23	23	25
10 to 15 years	15	16	16	18	18	18	12	17	15	17
15 to 20 years	9	10	10	12	14	13	7	12	10	11
20 to 25 years	7	4	5	7	9	9	4	7	6	6
over 25 years	9	4	6	10	12	11	14	7	9	7