

PRUDENTIAL PLC
Form 6-K
August 10, 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 August, 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 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

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 Financial Information
Prudential plc Half Year 2017 results
International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED INCOME STATEMENT

	2017 £m	2016 £m	
	Note	Half year	Full year
Earned premiums, net of reinsurance		21,158	36,961
Investment return		20,629	32,511

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Other income		1,222	1,085	2,370
Total revenue, net of reinsurance	B1.4	43,009	35,541	71,842
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(35,442)	(30,939)	(59,366)
Acquisition costs and other expenditure	B3	(5,330)	(3,563)	(8,848)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(216)	(169)	(360)
Disposal of Korea life business:				
Cumulative exchange gain recycled from other comprehensive income	D1	61	-	-
Remeasurement adjustments	D1	5	-	(238)
Total charges, net of reinsurance		(40,922)	(34,671)	(68,812)
Share of profits from joint ventures and associates, net of related tax		120	86	182
Profit before tax (being tax attributable to shareholders' and policyholders' returns)*		2,207	956	3,212
Less tax charge attributable to policyholders' returns		(393)	(292)	(937)
Profit before tax attributable to shareholders	B1.1	1,814	664	2,275
Total tax charge attributable to policyholders and shareholders	B5	(702)	(269)	(1,291)
Adjustment to remove tax charge attributable to policyholders' returns		393	292	937
Tax (charge) credit attributable to shareholders' returns	B5	(309)	23	(354)
Profit for the period attributable to equity holders of the Company		1,505	687	1,921

	2017	2016	
Earnings per share (in pence)	Half year	Half year	Full year
Based on profit attributable to the equity holders of the Company:			
Basic	58.7p	26.9p	75.0p
Diluted	58.6p	26.8p	75.0p

	2017	2016	
Dividends per share (in pence)	Half year	Half year	Full year
Dividends relating to reporting period:			
First interim ordinary dividend	14.50p	12.93p	12.93p
Second interim ordinary dividend	-	-	30.57p
Total	14.50p	12.93p	43.50p
Dividends paid in reporting period:			
Current year first interim ordinary dividend	-	-	12.93p
Second interim ordinary dividend for prior year	30.57p	26.47p	26.47p
Special dividend for prior year	-	10.00p	10.00p
Total	30.57p	36.47p	49.40p

*

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

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This is 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 (which 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) is not representative of pre-tax profits attributable to shareholders.

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2017 £m Half year	2016 £m Half year	Full year
Profit for the period		1,505	687	1,921
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		(220)	798	1,148
Cumulative exchange gain of Korea life business recycled through profit and loss	D1	(61)	-	-
Related tax		(4)	8	13
		(285)	806	1,161
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Net unrealised holding gains arising during the period		565	2,023	241
Add back net losses (deduct net gains) included in the income statement on disposal and impairment		(34)	95	(269)
Total	C3.2(c)	531	2,118	(28)
Related change in amortisation of deferred acquisition costs	C5(b)	(69)	(435)	76
Related tax		(162)	(589)	(17)
		300	1,094	31
Total		15	1,900	1,192
Items that will not be reclassified to profit or loss				
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:				
Gross		53	11	(107)
Related tax		(7)	(2)	14
		46	9	(93)
Other comprehensive income for the period, net of related tax		61	1,909	1,099
Total comprehensive income for the period attributable to the equity holders of the Company		1,566	2,596	3,020

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International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Period ended 30 June 2017 £m								
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period	-	-	1,505	-	-	-	1,505	-	1,505
Other comprehensive income (loss)	-	-	46	(285)	300	61	-	-	61
Total comprehensive income (loss) for the period	-	-	1,551	(285)	300	1,566	-	-	1,566
Dividends	B7	-	-	(786)	-	-	(786)	-	(786)
Reserve movements in respect of share-based payments	-	-	22	-	-	-	22	-	22
Share capital and share premium									
New share capital subscribed	C9	-	10	-	-	-	10	-	10
Treasury shares									
Movement in own shares in respect of share-based payment plans	-	-	(12)	-	-	-	(12)	-	(12)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS	-	-	(17)	-	-	-	(17)	-	(17)
Net increase (decrease) in equity	-	10	758	(285)	300	783	-	-	783

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At beginning of period	129	1,927	10,942	1,310	358	14,666	1	14,667
At end of period	129	1,937	11,700	1,025	658	15,449	1	15,450

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

		Period ended 30 June 2016 £m							
	Note	Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
		note C9	note C9						
Reserves									
Profit for the period	-	-	687	-	-	-	687	-	687
Other comprehensive income	-	-	9	806	1,094	1,909	-	-	1,909
Total comprehensive income for the period	-	-	696	806	1,094	2,596	-	-	2,596
Dividends	B7	-	-	(935)	-	-	(935)	-	(935)
Reserve movements in respect of share-based payments	-	-	(54)	-	-	-	(54)	-	(54)
Share capital and share premium									
New share capital subscribed	C9	-	6	-	-	-	6	-	6
Treasury shares									
Movement in own shares in respect of share-based payment plans	-	-	22	-	-	-	22	-	22
Movement in Prudential plc shares purchased by	-	-	15	-	-	-	15	-	15

unit trusts consolidated under IFRS Net increase (decrease) in equity	-	6	(256)	806	1,094	1,650	-	1,650
At beginning of period	128	1,915	10,436	149	327	12,955	1	12,956
At end of period	128	1,921	10,180	955	1,421	14,605	1	14,606

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Year ended 31 December 2016 £m								
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non- controlling interests	Total equity
Reserves									
Profit for the year	-	-	1,921	-	-	1,921	-	1,921	
Other comprehensive income (loss)	-	-	(93)	1,161	31	1,099	-	1,099	
Total comprehensive income for the year	-	-	1,828	1,161	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	C9	1	12	-	-	-	13	-	13
Treasury shares									
Movement in own shares in respect of	-	-	2	-	-	2	-	2	

share-based payment plans 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	1,711	-	1,711
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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2017 £m 30 Jun	2016 £m 30 Jun	31 Dec
Assets				
Goodwill	C5(a)	1,501	1,677	1,628
Deferred acquisition costs and other intangible assets	C5(b)	10,757	9,594	10,807
Property, plant and equipment		727	1,214	743
Reinsurers' share of insurance contract liabilities		9,709	9,470	10,051
Deferred tax assets	C7	4,105	3,771	4,315
Current tax recoverable		700	554	440
Accrued investment income		2,887	2,764	3,153
Other debtors		3,417	3,505	3,019
Investment properties		15,218	13,940	14,646
Investment in joint ventures and associates accounted for using the equity method		1,293	1,135	1,273
Loans	C3.3	16,952	14,215	15,173
Equity securities and portfolio holdings in unit trusts		210,437	176,037	198,552
Debt securities	C3.2	170,793	168,367	170,458
Derivative assets		3,789	5,495	3,936
Other investments		5,566	4,845	5,465
Deposits		13,353	14,181	12,185

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Assets held for sale		33	30	4,589
Cash and cash equivalents		9,893	8,530	10,065
Total assets	C1	481,130	439,324	470,498
Equity				
Shareholders' equity		15,449	14,605	14,666
Non-controlling interests		1	1	1
Total equity		15,450	14,606	14,667
Liabilities				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		398,980	362,510	388,996
Unallocated surplus of with-profits funds		15,090	13,597	14,317
Core structural borrowings of shareholder-financed operations	C6.1	6,614	5,966	6,798
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	2,096	2,798	2,317
Borrowings attributable to with-profits operations	C6.2(b)	3,336	1,427	1,349
Obligations under funding, securities lending and sale and repurchase agreements		6,408	4,963	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		8,577	8,770	8,687
Deferred tax liabilities	C7	5,683	5,397	5,370
Current tax liabilities		743	566	649
Accruals, deferred income and other liabilities		14,524	12,915	13,825
Provisions		759	467	947

Derivative liabilities		2,870	5,342	3,252
Liabilities held for sale		-	-	4,293
Total liabilities	C1	465,680	424,718	455,831
Total equity and liabilities		481,130	439,324	470,498

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £9,182 million of lent securities as at 30 June 2017 (30 June 2016: £8,162 million; 31 December 2016: £8,545 million).

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2017 £m Half year	2016 £m Half year	Full year
Cash flows from operating activities				
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)		2,207	956	3,212
Non-cash movements in operating assets and liabilities reflected in profit before tax:				
Other non-investment and non-cash assets		(550)	(2,660)	(2,490)
Investments		(26,539)	(21,280)	(37,824)
Policyholder liabilities (including unallocated surplus)		21,597	19,548	31,135
Other liabilities (including operational borrowings)		3,390	3,836	7,861
Other itemsnote (ii)		(15)	403	307
Net cash flows from operating activities		90	803	2,201
Cash flows from investing activities				
Net cash outflows from purchases and disposals of property, plant and equipment		(56)	(32)	(246)
Net cash inflows (outflows) from corporate transactionsnote (iii)		813	(302)	(303)
Net cash flows from investing activities		757	(334)	(549)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations:note (iv) C6.1				
Issue of subordinated debt, net of costs		-	681	1,227
Interest paid		(207)	(160)	(335)
With-profits operations:note (v) C6.2				
Interest paid		(4)	(4)	(9)
Equity capital:				
Issues of ordinary share capital		10	6	13
Dividends paid		(786)	(935)	(1,267)
Net cash flows from financing activities		(987)	(412)	(371)
Net (decrease) / increase in cash and cash equivalents		(140)	57	1,281
		10,065	7,782	7,782

Cash and cash equivalents at beginning of period			
Effect of exchange rate changes on cash and cash equivalents	(32)	691	1,002
Cash and cash equivalents at end of period	9,893	8,530	10,065

Notes

(i)

This measure as explained in the footnote to the income statement is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii)

The adjusting items to profit before tax included within other items are adjustments in respect of non-cash items together with operational interest receipts and payments, dividend receipts and tax paid.

(iii)

Net cash flows for corporate transactions are for distribution rights and the acquisition and disposal of businesses (including private equity and other subsidiaries acquired by with-profits funds for investment purposes).

(iv)

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.

The changes in the carrying value of the structural borrowings of shareholder-financed operations during half year 2017 are analysed as follows:

	Non-cash movements £m			Balance at 30 Jun 2017
	Balance at 1 Jan 2017	Amortisation of issue costs	Foreign exchange movement	
Structural borrowings of shareholder-financed operations	6,798	7	(191)	6,614

(v)

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. There is no change in respect of the carrying value of the £100 million structural borrowings of the with-profits operations during half year 2017. 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.

International Financial Reporting Standards (IFRS) Basis Results

NOTES

A

BACKGROUND

A1

Basis of preparation, audit status and exchange rates

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Group's policy for preparing this interim financial

information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRS that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRS may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 30 June 2017, there were no unendorsed standards effective for the period ended 30 June 2017 which impact the condensed consolidated financial statements of the Group, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2017 and 2016 half years are unaudited. The 2016 full year IFRS basis results have been derived from the 2016 statutory accounts. The auditors have reported on the 2016 statutory accounts which have been delivered to the Registrar of Companies. The auditors' 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.

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

	Closing rate at 30 Jun 2017	Average for the 6 months to 30 Jun 2017	Closing rate at 30 Jun 2016	Average for the 6 months to 30 Jun 2016	Closing rate at 31 Dec 2016	Average for 12 months to 31 Dec 2016
Local currency: £						
Hong Kong	10.14	9.80	10.37	11.13	9.58	10.52
Indonesia	17,311.76	16,793.63	17,662.47	19,222.95	16,647.30	18,026.11
Malaysia	5.58	5.53	5.39	5.87	5.54	5.61
Singapore	1.79	1.77	1.80	1.98	1.79	1.87
China	8.81	8.66	8.88	9.37	8.59	8.99
India	83.96	82.77	90.23	96.30	83.86	91.02
Vietnam	29,526.43	28,612.70	29,815.99	31,996.45	28,136.99	30,292.79
Thailand	44.13	43.72	46.98	50.81	44.25	47.80
US	1.30	1.26	1.34	1.43	1.24	1.35

Certain notes to the financial statements present half year 2016 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the condensed 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 at the balance sheet date for the balance sheet. 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 accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2016, as disclosed in the 2016 statutory accounts.

A2

New accounting pronouncements in 2017

The IASB has issued the following new accounting pronouncements to be effective for 1 January 2017:

–

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Disclosure Initiative (Amendments to IAS 7, 'Statement of Cash Flows');

–

Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12, 'Income Taxes'); and

–

Annual Improvements to IFRSs 2014-2016 Cycle.

The pronouncements have yet to be endorsed by the EU and will have no effect on the Group financial statements other than minor changes to disclosures.

B
EARNINGS PERFORMANCE

B1
Analysis of performance by segment

B1.1
Segment results – profit before tax

		2017 £m	2016* £m		%		2016 £m
	Note	Half year	AER Half year note (iv)	CER Half year note (iv)	Half year 2017 vs half year 2016 AER note (iv)	Half year 2017 vs half year 2016 CER note (iv)	AER Full year
Asia operations							
Asia insurance operations	B4(a)	870	667	752	30%	16%	1,503
Eastspring Investments		83	61	69	36%	20%	141
Total Asia operations		953	728	821	31%	16%	1,644
US operations							
Jackson (US insurance operations)		1,079	888	1,010	22%	7%	2,052
Broker-dealer and asset management		(6)	(12)	(13)	50%	54%	(4)
Total US operations		1,073	876	997	22%	8%	2,048
UK operations							
UK insurance operations:	B4(b)						
Long-term business		480	473	473	1%	1%	799
General insurance commission note (i)		17	19	19	(11)%	(11)%	29
Total UK insurance operations		497	492	492	1%	1%	828
M&G		248	225	225	10%	10%	425
Prudential Capital		6	13	13	(54)%	(54)%	27
Total UK operations		751	730	730	3%	3%	1,280
Total segment profit		2,777	2,334	2,548	19%	9%	4,972
Other income and expenditure							
Investment return and other income		-	6	6	(100)%	(100)%	1

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Interest payable on core structural borrowings		(216)	(165)	(165)	(31)%	(31)%	(360)
Corporate expenditure note (ii)		(172)	(156)	(165)	(10)%	(4)%	(334)
Total		(388)	(315)	(324)	(23)%	(20)%	(693)
Solvency II implementation costs		-	(11)	(11)	n/a	n/a	(28)
Restructuring costs note (iii)		(31)	(7)	(7)	(343)%	(343)%	(38)
Operating profit based on longer-term investment returns before interest received from tax settlement		2,358	2,001	2,206	18%	7%	4,213
Interest received from tax settlement		-	43	43	n/a	n/a	43
Operating profit based on longer-term investment returns	B1.3	2,358	2,044	2,249	15%	5%	4,256
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(573)	(1,385)	(1,580)	59%	64%	(1,678)
Amortisation of acquisition accounting adjustments note (v)		(32)	(35)	(39)	9%	18%	(76)
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61	-	-	n/a	n/a	-
Profit (loss) attaching to the held for sale Korea life business	D1	-	40	47	n/a	n/a	(227)
Profit before tax attributable to shareholders		1,814	664	677	173%	168%	2,275
Tax charge attributable to shareholders' returns	B5	(309)	23	43	n/a	n/a	(354)
Profit for the period attributable to shareholders		1,505	687	720	119%	109%	1,921
		2017	2016*		%		2016
		Half year	AER Half year	CER Half year	vs half year 2016 AER	Half year 2017 vs half year 2016 CER	AER Full year
Basic earnings per share (in pence)	B6		note (iv)	note (iv)	note (iv)	note (iv)	
Based on operating profit based on longer-term investment returns		70.0p	61.3p	67.6p	14%	4%	131.3p
Based on profit for the period		58.7p	26.9p	28.2p	118%	108%	75.0p

*

The Group completed the sale of its life business in Korea in May 2017. Operating profit based on longer term investment returns for half year 2017 excludes the results attributable to the sold Korea life business, as described in note D1. This approach is consistent with the presentation of operating profit for full year 2016 reported in the Group 2016 Annual Report. Comparative operating profit for half year 2016 has been represented in order to show the results of the retained operations on a comparable basis, resulting in a reclassification in half year 2016 of £15 million of

operating profit attributable to the Korea life business to non-operating profit.

Notes

(i)
General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.

(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)
For definitions of AER and CER refer to note A1.

(v)
Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson.

B1.2

Short-term fluctuations in investment returns on shareholder-backed business

	2017 £m	2016 £m	
	Half year	Half year	Full year
Insurance operations:			
Asia note (i)	41	1	(225)
US note (ii)	(754)	(1,440)	(1,455)
UK note (iii)	9	246	198
Other operations			
note (iv)	131	(192)	(196)
Total	(573)	(1,385)	(1,678)

*

Following its sale in May 2017, the half year 2016 comparative short-term fluctuations in investment returns has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

Notes

(i)
Asia insurance operations

In Asia, the positive short-term fluctuations of £41 million principally reflect net value movements on shareholders' assets and related liabilities following falls in bond yields across the region during the period (half year 2016: positive £1 million; full year 2016: negative £(225) million).

(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 £231 million as shown in note C5 (half year 2016: credit of £616 million; full year 2016: credit of £565 million) and comprise amounts in respect of the following items:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Net equity hedge	(782)	(1,692)	(1,587)

resultnote (a)			
Other than equity-related derivativesnote ¹²	335	(126)	
(b)			
Debt securities note 5	(105)	201	
(c)			
Equity-type investments:			
actual less longer-term return	1	13	35
Other items	10	9	22
Total	(754)	(1,440)	(1,455)

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; and

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:

–
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

2017 £m	2016 £m	
Half year	Half year	Full year

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Short-term fluctuations relating to debt securities			
(Charges) credits in the period:			
Losses on sales of impaired and deteriorating bonds	(2)	(87)	(94)
Defaultsnote (v)	-	(6)	(4)
Bond write downs	(1)	(32)	(35)
Recoveries/reversals	7	4	15
Total credits (charges) in the period	4	(121)	(118)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	46	42	89
	50	(79)	(29)
Interest-related realised gains:			
Arising in the period	23	20	376
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	(72)	(59)	(135)
	(49)	(39)	241
Related amortisation of deferred acquisition costs	4	13	(11)
Total short-term fluctuations related to debt securities	5	(105)	201

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 and variations from year to year are 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 half year 2017 is based on an average annual risk margin reserve of 21 basis points (half year 2016: 21 basis points; full year 2016: 21 basis points) on average book values of US\$55.8 billion (half year 2016: US\$56.4 billion; full year 2016: US\$56.4 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	Half year 2017				Half year 2016				Full year 2016			
	Average book value		Annual expected loss		Average book value		Annual expected loss		Average book value		Annual expected loss	
	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m
A3 or higher	27,848	0.13	(35)	(28)	29,172	0.12	(36)	(25)	29,051	0.12	(36)	(27)
Baa1, 2 or 3	26,601	0.23	(60)	(47)	25,771	0.24	(63)	(44)	25,964	0.24	(62)	(46)
Ba1, 2 or 3	1,052	1.03	(11)	(9)	1,065	1.08	(11)	(8)	1,051	1.07	(11)	(8)
B1, 2 or 3	311	2.75	(9)	(7)	319	3.02	(10)	(7)	312	2.95	(9)	(7)
Below B3	27	3.80	(1)	(1)	41	3.81	(2)	(1)	40	3.81	(2)	(1)
Total	55,839	0.21	(116)	(92)	56,368	0.21	(122)	(85)	56,418	0.21	(120)	(89)
Related amortisation of deferred acquisition costs (see below)			22	17			22	15			23	17
Risk margin reserve charge to operating profit for longer-term credit-related losses			(94)	(75)			(100)	(70)			(97)	(72)

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 of £462 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (half year 2016: credit of £1,683 million for net unrealised gains; full year 2016: credit of £48 million for net unrealised losses). 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 £9 million (half year 2016: £246 million; full year 2016: £198 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iv)

Other

The positive short-term fluctuations in investment returns for other operations of £131 million (half year 2016: negative £(192) million; full year 2016: negative £(196) million) include unrealised value movements on financial instruments and foreign exchange items.

(v)

Default losses

The Group incurred no default losses on its shareholder-backed debt securities portfolio for half year 2017 (half year 2016: £(6) million; full year 2016: £(4) million).

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	– Eastspring Investments
– US (Jackson)	– US broker-dealer and asset management
– UK	– 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. This measurement basis distinguishes operating profit based on longer-term investment returns from other constituents of the total profit as follows:

–

Short-term fluctuations in investment returns on shareholder-backed business;

–

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; and

–

Profit (loss) attaching to the sold Korea life business including the recycling of the cumulative exchange translation gain on the sold Korea life business from other comprehensive income to the income statement in 2017

Segment results 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.

The determination of operating profit based on longer-term investment returns for investment and liability movements is as described in note B1.3 of the Group's consolidated financial statements for the year ended 31 December 2016.

For Group debt securities at 30 June 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds and have yet to be amortised to operating profit was a net gain of £876 million (30 June 2016: net gain of £605 million; 31 December 2016: net gain of £969 million).

For equity-type securities, the longer-term rates of return applied by the non-linked shareholder-financed insurance operations of Asia and the US to determine the amount of investment return included in operating profit are as follows:

For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £1,535 million as at 30 June 2017 (30 June 2016: £1,035 million; 31 December 2016: £1,405 million). The rates of return applied for 2017 ranged from 4.7 per cent to 17.2 per cent (30 June 2016: 3.2 per cent to 13.0 per cent; 31 December 2016: 3.2 per cent to 13.9 per cent) with the rates applied varying by business unit.

For US insurance operations, at 30 June 2017, the equity-type securities for non-separate account operations amounted to £1,256 million (30 June 2016: £1,115 million; 31 December 2016: £1,323 million). The longer-term rates of return for income and capital applied in 2017 and 2016, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums, are as follows:

	2017	2016	
	Half year	Half year	Full year
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.2% to 6.5%	5.5% to 5.9%	5.5% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.5%	8.2% to 7.9%	7.5% to 8.5%

B1.4

Additional segmental analysis of revenue

The additional segmental analysis of revenue including those from external customers excluding investment return and net of outward reinsurance premiums are as follows:

Half year 2017 £m			Asset management				Total segment	Unallocated to a segment (central	Group total
Insurance operations			M&G	Prudential	US	Eastspring Investments			
Asia	US	UK	Capital						

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									operations)	
Gross premium earned	7,697	7,997	6,411	-	-	-	-	22,105	-	22,105
Outward reinsurance	(243)	(168)	(536)	-	-	-	-	(947)	-	(947)
Earned premiums, net of reinsurance	7,454	7,829	5,875	-	-	-	-	21,158	-	21,158
Other income from external customers	56	3	89	576	10	371	103	1,208	14	1,222
Total revenue from external customers	7,510	7,832	5,964	576	10	371	103	22,366	14	22,380
Intra-group revenue	-	-	-	88	20	57	128	293	(293)	-
Interest income	485	1,082	1,754	-	30	-	1	3,352	3	3,355
Other investment return	4,315	7,253	5,605	4	47	1	2	17,227	47	17,274
Total revenue, net of reinsurance	12,310	16,167	13,323	668	107	429	234	43,238	(229)	43,009

Half year 2016 £m

Insurance operations Asset management

	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	Group total
Gross premium earned	6,116	6,980	5,242	-	-	-	-	18,338	-	18,338
Outward reinsurance	(401)	(162)	(381)	-	-	-	-	(944)	-	(944)
Earned premiums, net of reinsurance	5,715	6,818	4,861	-	-	-	-	17,394	-	17,394
Other income	32	1	124	463	2	322	85	1,029	56	1,085

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from external customers											
Total revenue from external customers	5,747	6,819	4,985	463	2	322	85	18,423	56	18,479	
Intra-group revenue	-	-	-	88	16	47	95	246	(246)	-	
Interest income	441	992	2,186	2	36	-	1	3,658	-	3,658	
Other investment return	2,241	1,537	9,789	4	(67)	(1)	-	13,503	(99)	13,404	
Total revenue, net of reinsurance	8,429	9,348	16,960	557	(13)	368	181	35,830	(289)	35,541	

	Full year 2016 £m Insurance operations			Asset management				Total segment	Unallocated to a segment (central operations)	Group total
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments			
Gross premium earned	14,006	14,685	10,290	-	-	-	-	38,981	-	38,981
Outward reinsurance	(648)	(367)	(1,005)	-	-	-	-	(2,020)	-	(2,020)
Earned premiums, net of reinsurance	13,358	14,318	9,285	-	-	-	-	36,961	-	36,961
Other income from external customers	77	4	374	972	19	680	176	2,302	68	2,370
Total revenue from external customers	13,435	14,322	9,659	972	19	680	176	39,263	68	39,331
Intra-group revenue	-	-	-	200	37	103	211	551	(551)	-
Interest income	873	2,149	4,502	15	47	2	2	7,590	57	7,647

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Other investment return	2,040	5,461	17,577	1	(41)	-	2	25,040	(176)	24,864
Total revenue, net of reinsurance	16,348	21,932	31,738	1,188	62	785	391	72,444	(602)	71,842

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:

	2017 £m				2016 £m		
	M&G	Prudential Capital	US	Eastspring Investments	Half year Total	Half year Total	Full year Total
Revenue (excluding NPH broker-dealer fees)	668	107	124	234	1,133	834	1,876
NPH broker-dealer feesnote (i)	-	-	305	-	305	259	550
Gross revenue	668	107	429	234	1,438	1,093	2,426
Charges (excluding NPH broker-dealer fees)	(395)	(50)	(130)	(180)	(755)	(649)	(1,402)
NPH broker-dealer feesnote (i)	-	-	(305)	-	(305)	(259)	(550)
Gross charges	(395)	(50)	(435)	(180)	(1,060)	(908)	(1,952)
Share of profits from joint ventures and associates, net of related tax	8	-	-	29	37	26	67
Profit before tax	281	57	(6)	83	415	211	541
Comprising:							
Operating profit based on longer-term investment returnsnote (ii)	248	6	(6)	83	331	287	589
Short-term fluctuations in investment returns	33	51	-	-	84	(76)	(48)
Profit before tax	281	57	(6)	83	415	211	541

Notes

(i)
NPH broker-dealer fees 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 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:

	2017 £m		2016 £m
	Half year	Half year	Full year
Asset management fee income	491	431	900
Other income	4	9	23
Staff costs	(166)	(133)	(332)
Other costs	(95)	(96)	(212)
Underlying profit before performance-related	234	211	379

fees			
Share of associate's results	8	5	13
Performance-related fees	6	9	33
M&G operating profit based on longer-term investment returns	248	225	425

The revenue for M&G of £501 million (half year 2016: £449 million; full year 2016: £956 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £668 million shown in the main table of this note. This is because the £501 million (half year 2016: £449 million; full year 2016: £956 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

	2017 £m	2016 £m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	(1,920)	(1,700)	(3,687)
Acquisition costs deferred less amortisation of acquisition costs	399	740	923
Administration costs and other expenditure	(3,055)	(2,451)	(5,522)
Movements in amounts attributable to external unit holders of consolidated investment funds	(754)	(152)	(562)
Total acquisition costs and other expenditure	(5,330)	(3,563)	(8,848)

Included in total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(60) million (half year 2016: £(75) million; full year 2016 £(158) million).

B4

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

The following features are of relevance to the determination of the half year 2017 results:

(a)

Asia insurance operations

In half year 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £54 million (half year 2016: £42 million; full year 2016: £67 million) representing a small number of non-recurring items.

(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 used 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 the second half of 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 30 June 2017 (30 June 2016 and 31 December 2016: 43 basis points). The allowance represented 28 per cent of the bond spread over swap rates (30 June 2016: 23 per cent; 31 December 2016: 26 per cent).

The reserves for credit risk allowance at 30 June 2017 for the UK shareholder-backed business (both for ex-PRIL and the legacy PAC shareholder annuity business) were £1.7 billion (30 June 2016: £ 1.8 billion; 31 December 2016: £1.7 billion).

Longevity reinsurance and other management actions

A number of management actions were taken in the first half of 2017 to improve the solvency position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £188 million. Similar actions were also taken in 2016.

Of this amount £31 million related to profit from additional longevity reinsurance transactions covering £0.6 billion of annuity liabilities on an IFRS basis, with the balance of £157 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance and other management actions in 2016 was £140 million for the first half of the year (of which £66 million related to longevity reinsurance transactions covering £1.5 billion of IFRS annuity liabilities) and £332 million for the full year (of which £197 million related to longevity reinsurance transactions covering £5.4 billion of IFRS annuity liabilities).

At 30 June 2017, longevity reinsurance covered £14.8 billion of IFRS annuity liabilities equivalent to 44 per cent of total annuity liabilities (30 June 2016: £10.7 billion, 32 per cent; 31 December 2016: £14.4 billion, 42 per cent).

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 commenced in 2017 and is expected to last a period of three years. A provision of £175 million was established at 31 December 2016 to cover the costs of undertaking the review and any potential redress. Other than to cover the small amount of costs incurred in the period, no change has been made to this provision as at 30 June 2017. 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

(a)

Total tax charge by nature of expense

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

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Tax charge	2017 £m		2016 £m		
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
UK tax	(240)	(66)	(306)	(229)	(764)
Overseas tax	(187)	(209)	(396)	(40)	(527)
Total tax charge	(427)	(275)	(702)	(269)	(1,291)

The current tax charge of £427 million includes £37 million (half year 2016: £27 million; full year 2016: £53 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	2017 £m			2016 £m	
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
Tax (charge) to policyholders' returns	(247)	(146)	(393)	(292)	(937)
Tax (charge) credit attributable to shareholders	(180)	(129)	(309)	23	(354)
Total tax (charge)	(427)	(275)	(702)	(269)	(1,291)

The principal reason for the increase in the tax charge attributable to policyholders' returns compared to half year 2016 is an increase on investment return in the with-profits fund in the UK insurance operations. The principal reason for the increase in the tax charge attributable to shareholders' returns compared to half year 2016 is a reduction in the 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.

	Half year 2017 £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	870	1,079	497	(88)	2,358	n/a	n/a
Non-operating profit (loss)	98	(782)	9	131	(544)	n/a	n/a
Profit before tax	968	297	506	43	1,814	393	2,207
Expected tax rate	20%	35%	19%	19%	22%	100%	36%
Tax at the expected rate	194	104	96	8	402	393	795
Effects of recurring tax reconciliation items:	(18)	(10)		(3)	(31)		(31)

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Income not taxable or taxable at concessionary rates							
Deductions not allowable for tax purposes	8		5	5	18		18
Items related to taxation of life insurance businesses	(43)	(85)	(2)		(130)		(130)
Deferred tax adjustments	4		(1)		3		3
Effect of results of joint ventures and associates	(11)			(9)	(20)		(20)
Irrecoverable withholding taxes				29	29		29
Other		4	2	4	10		10
Total	(60)	(91)	4	26	(121)	-	(121)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years		10	(5)	(1)	4		4
Movements in provisions for open tax matters	7	25			32		32
Cumulative exchange gains on the sold Korea life business recycled from other comprehensive income	(8)				(8)		(8)
Total	(1)	35	(5)	(1)	28	-	28
Total actual tax charge	133	48	95	33	309	393	702
Analysed into:							
Tax on operating profit based on longer-term investment returns	141	322	92	8	563	n/a	n/a
Tax on non-operating profit	(8)	(274)	3	25	(254)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	16%	30%	19%	(9)%	24%	n/a	n/a
Excluding non-recurring tax reconciling items	15%	27%	20%	(10)%	22%	n/a	n/a
Total profit	14%	16%	19%	77%	17%	100%	32%

The more significant reconciling items are explained below:

Asia insurance operations

The £18 million reconciling item 'income not taxable or taxable at concessionary rates' primarily reflects income not subject to the full rate of corporate tax in Malaysia, Singapore and Taiwan.

The £43 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

–

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Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

The £11 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 £8 million reconciling item ‘cumulative exchange gain on the sold Korea life business recycled from other comprehensive income’ reflects the non-taxable exchange gain arising on the Korea life business previously taken through other comprehensive income on a period-by-period basis recycled through the income statement following the sale of the business.

US insurance operations

The £85 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 the variable annuity business.

UK insurance operations

There are no significant reconciling items or significant movements from half year 2016.

Other operations

The £29 million reconciling item ‘irrecoverable withholding taxes’ relates to withholding tax suffered on distributions from group companies which cannot be recovered against other taxes paid. Other operations comprise the Group’s asset management businesses and central operations.

	Half year 2016* £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*	667	888	492	(3)	2,044	n/a	n/a
Non-operating profit (loss)	37	(1,471)	246	(192)	(1,380)	n/a	n/a
Profit (loss) before tax	704	(583)	738	(195)	664	292	956
Expected tax rate	21%	35%	20%	20%	8%	100%	36%
Tax at the expected rate	148	(204)	148	(39)	53	292	345
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(14)	(5)	(16)	(3)	(38)		(38)
Deductions not allowable for tax purposes	8	2	6	2	18		18
Items related to taxation of life insurance businesses	(10)	(60)	(1)	-	(71)		(71)
Deferred tax adjustments	(1)	-	3	(3)	(1)		(1)
Effect of results of joint ventures and associates	(10)	-	-	(7)	(17)		(17)
Irrecoverable withholding taxes	-	-	-	20	20		20
Other	3	-	(2)	16	17		17
Total	(24)	(63)	(10)	25	(72)	-	(72)

Effects of non-recurring tax reconciliation items:

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Adjustments to tax charge in relation to prior years	1	(3)	-	(2)	(4)		(4)
Total	1	(3)	-	(2)	(4)	-	(4)
Total actual tax charge (credit)	125	(270)	138	(16)	(23)	292	269
Analysed into:							
Tax on operating profit based on longer-term investment returns	116	245	101	13	475	n/a	n/a
Tax on non-operating profit	9	(515)	37	(29)	(498)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	28%	21%	(433)%	23%	n/a	n/a
Excluding non-recurring tax reconciling items	17%	28%	21%	(500)%	23%	n/a	n/a
Total profit	18%	46%	19%	8%	(3)%	100%	28%

*

Following its sale in May 2017, the half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

	Full year 2016 £m						
	Asia insurance operations	US insurance operations	UK insurance operations	Other operations	Attributable to shareholders	Attributable to policyholders	Total
Operating profit (loss) 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)
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)
	20	-	-	31	51		51

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Movements in provisions for open tax matters							
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 full year 2016 expected and actual tax rates as shown includes the impact of the re-measurement loss on the held for sale Korea life business. The full year 2016 tax rates for Asia insurance operations and attributable to shareholders, 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%

B6

Earnings per share

	Half year 2017					
	Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share	
	note B1.1	note B5				
	Note	£m	£m	£m	pence	pence
Based on operating profit based on longer-term		2,358	(563)	1,795	70.0p	69.9p

investment returns						
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(573)	248	(325)	(12.7)p	(12.7)p
Amortisation of acquisition accounting adjustments		(32)	6	(26)	(1.0)p	(1.0)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income		61	-	61	2.4p	2.4p
Based on profit for the period		1,814	(309)	1,505	58.7p	58.6p
		Half year 2016*				
		Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share
		note B1.1	note B5			
	Note	£m	£m	£m	pence	pence
Based on operating profit based on longer-term investment returns		2,044	(475)	1,569	61.3p	61.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,385)	496	(889)	(34.7)p	(34.7)p
Amortisation of acquisition accounting adjustments		(35)	11	(24)	(0.9)p	(0.9)p
Profit attaching to held for sale Korea life business	D1	40	(9)	31	1.2p	1.2p
Based on profit for the period		664	23	687	26.9p	26.8p

*

Following its sale in May 2017, the half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

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	Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share
Note	note B1.1 £m	note B5 £m	£m	pence	pence
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
Amortisation of acquisition accounting adjustments	(76)	25	(51)	(2.0)p	(2.0)p
Loss attaching to held for sale Korea life business	D1 (227)	(4)	(231)	(9.0)p	(9.0)p
Based on profit for the year	2,275	(354)	1,921	75.0p	75.0p

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:

	Half year 2017	Half year 2016	Full year 2016
Weighted average number of shares for calculation of:	(millions)	(millions)	(millions)
Basic earnings per share	2,565	2,558	2,560
Diluted earnings per share	2,567	2,559	2,562

B7

Dividends

	Half year 2017		Half year 2016		Full year 2016	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim ordinary dividend	14.50p	375	12.93p	333	12.93p	333
Second interim ordinary dividend	-	-	-	-	30.57p	789
Total	14.50p	375	12.93p	333	43.50p	1,122
Dividends paid in reporting period:						
Current year first interim ordinary dividend	-	-	-	-	12.93p	332

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Second interim ordinary dividend for prior year	30.57p	786	26.47p	679	26.47p	679
Special dividend for prior year	-	-	10.00p	256	10.00p	256
Total	30.57p	786	36.47p	935	49.40p	1,267

Dividend per share

The second interim dividend of 30.57 pence per ordinary share for the year ended 31 December 2016 was paid to eligible shareholders on 19 May 2017.

The 2017 first interim dividend of 14.50 pence per ordinary share will be paid on 28 September 2017 in sterling to shareholders on the principal (UK) register and the Irish branch register at 6.00pm BST on 25 August 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). 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 9 August 2017. Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 5 October 2017. The exchange rate at which the dividend payable to the US Shareholders will be translated into US dollars will be determined by the depositary agent. The first interim dividend will be paid on or about 5 October 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 exchange rate at which the dividend payable to the SG Shareholders will be translated from Hong Kong dollars into Singapore dollars, will be determined by CDP.

Shareholders on the principal (UK) 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

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

30 Jun 2017 £m										30 Jun 2016 £m	31 Dec 2016 £m	
Insurance operations			Asset management					Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	Group Total	Group Total	Group Total
Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments						
By operating segment	C2.1	C2.2	C2.3									
Assets												
Goodwill	246	5(a)-	26	1,153	-	16	61	-	-	1,501	1,677	1,628
Deferred acquisition costs	2,340	8,187	168	6	-	5	4	47	-	10,757	9,594	10,807

and other intangible assets C5(b)													
Property, plant and equipment	119	224	344	4	-	8	3	25	-	727	1,214	743	
Reinsurers' share of insurance contract liabilities	1,680	6,740	2,560	-	-	-	-	-	(1,271)	9,709	9,470	10,051	
Deferred tax assets C7	85	3,678	127	20	7	130	8	50	-	4,105	3,771	4,315	
Current tax recoverable	30	348	311	-	5	6	-	70	(70)	700	554	440	
Accrued investment income	566	493	1,650	7	23	76	32	41	-	2,887	2,764	3,153	
Other debtors	2,598	260	2,796	1,000	758	73	62	5,418	(9,548)	3,417	3,505	3,019	
Investment properties	5	6	15,207	-	-	-	-	-	-	15,218	13,940	14,646	
Investment in joint ventures and associates, accounted for using the equity method	714	-	405	39	-	-	135	-	-	1,293	1,135	1,273	
Loans	3,307	9,497	5,784	-	364	-	-	-	-	16,952	14,215	15,173	
Equity securities and portfolio holdings in unit trusts	26,753	125,059	58,398	111	-	-	19	97	-	210,437	176,037	198,552	
Debt securities C3.2	39,061	38,029	91,302	-	2,381	-	-	20	-	170,793	168,367	170,458	
	102	906	2,676	-	101	-	-	4	-	3,789	5,495	3,936	

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Derivative assets												
Other investments	932	4,614	16	-	4	-	-	-	5,566	4,845	5,465	
Deposits	243	-	11,843	-	-	18	44	205	-	13,353	14,181	12,185
Assets held for sale	-	-	33	-	-	-	-	-	-	33	30	4,589
Cash and cash equivalents	1,786	1,194	4,565	350	1,451	276	156	115	-	9,893	8,530	10,065
Total assets	78,633	195,553	202,809	2,706	5,090	612	524	6,092	(10,889)	481,130	439,324	470,498
Total equity	5,181	5,011	6,227	1,868	61	202	382	(3,482)	-	15,450	14,606	14,667
Liabilities												
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)C4.1	59,619	177,779	162,853	-	-	-	-	-	(1,271)	398,980	362,510	388,996
Unallocated surplus of with-profits fundsC4.1	3,003	-	12,087	-	-	-	-	-	-	15,090	13,597	14,317
Core structural borrowings of shareholder-financed operationsC6.1	192	-	-	275	-	-	-	6,147	-	6,614	5,966	6,798
Operational borrowings attributable to shareholder-financed operations	201	453	147	52	-	-	-	1,424	-	2,096	2,798	2,317

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C6.2(a) Borrowings attributable to 20 with-profits operations	-	3,316	-	-	-	-	-	-	-	3,336	1,427	1,349
C6.2(b) Obligations under funding, securities lending and sale and repurchase agreements	4,518	1,890	-	-	-	-	-	-	-	6,408	4,963	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,541	5,036	-	-	-	-	-	-	-	8,577	8,770	8,687
Deferred tax liabilities	1,021	2,981	1,646	21	-	2	1	11	-	5,683	5,397	5,370
Current tax liabilities	162	58	451	37	20	2	13	70	(70)	743	566	649
Accruals, deferred income and other liabilities	5,804	4,517	7,035	547	4,208	406	75	1,480	(9,548)	14,524	12,915	13,825
Provisions	118	1	350	181	-	-	53	36	-	759	467	947
Derivative liabilities	124	43	1,771	-	526	-	-	406	-	2,870	5,342	3,252
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	4,293
Total liabilities	73,452	190,542	196,582	838	5,029	410	142	9,574	(10,889)	465,680	424,718	455,831
	78,633	195,553	202,809	2,706	5,090	612	524	6,092	(10,889)	481,130	439,324	470,498

Total
equity
and
liabilities

Notes

(i)
£409 million (30 June 2016: £910 million; 31 December 2016: £413 million) of the property, plant and equipment of £727 million (30 June 2016: £1,214 million; 31 December 2016: £743 million) was held by the Group's with-profits operations, primarily by the consolidated subsidiaries for venture funds and other investment purposes of the PAC with-profits fund. The Group made additions to property, plant and equipment of £120 million during the period (30 June 2016: £128 million; 31 December 2016: £348 million).

(ii)
Reinsurers' share of contract liabilities relate primarily to the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations.

(iii)
Within other debtors are premiums receivable of £432 million (30 June 2016: £467 million; 31 December 2016: £498 million) of which 77 per cent are due within one year. The remaining 23 per cent is due after one year.

(iv)
Within 'Accruals, deferred income and other liabilities' of £14,524 million (30 June 2016: £12,915 million; 31 December 2016: £13,825 million) is an amount of £8,575 million (30 June 2016: £7,506 million; 31 December 2016: £9,873 million) that is due within one year.

C2

Analysis of segment statement of financial position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show the assets and liabilities of each segment by business type.

C2.1

Asia insurance operations

	Note	2017 £m			2016 £m		
		With-profits business	Unit-linked assets and liabilities	Other business	30 Jun Total	30 Jun Total	31 Dec Total
Assets							
Goodwill		-	-	245	245	258	245
Deferred acquisition costs and other intangible assets	31	-	-	2,309	2,340	2,356	2,316
Property, plant and equipment	82	-	-	37	119	88	121
Reinsurers' share of insurance contract liabilities	50	-	-	1,630	1,680	1,564	1,539
Deferred tax assets		-	-	85	85	92	98
Current tax recoverable		-	-	30	30	38	29

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Accrued investment income		253	60	252	565	570	521
Other debtors		1,847	189	562	2,598	3,229	2,633
Investment properties		-	-	5	5	5	5
Investment in joint ventures and associates accounted for using the equity method		-	-	714	714	525	688
Loans	C3.3	702	-	605	1,307	1,278	1,303
Equity securities and portfolio holdings in unit trusts		12,821	12,397	1,535	26,753	22,631	23,581
Debt securities	C3.2	23,398	3,442	12,221	39,061	35,519	36,546
Derivative assets		58	3	41	102	79	47
Deposits		307	393	543	1,243	912	1,379
Assets held for sale		-	-	-	-	-	3,863
Cash and cash equivalents		733	234	819	1,786	2,010	1,995
Total assets		40,282	16,718	21,633	78,633	71,154	76,909
Total equity		-	-	5,181	5,181	4,874	4,993
Liabilities							
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(b)	31,549	15,326	12,744	59,619	53,437	55,018
Unallocated surplus of with-profits funds	C4.1(b)	3,003	-	-	3,003	2,351	2,667
Operational borrowings attributable to shareholder-financed operations		-	13	7	20	11	19
Borrowings attributable to with-profits operations		20	-	-	20	6	4
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,114	1,201	226	3,541	3,379	3,093
Deferred tax liabilities		705	38	278	1,021	905	935
Current tax liabilities		64	-	98	162	109	113
Accruals, deferred income and other liabilities		2,667	138	2,999	5,804	5,838	5,887

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Provisions	48	-	90	138	115	157
Derivative liabilities	112	2	10	124	129	265
Liabilities held for sale	-	-	-	-	-	3,758
Total liabilities	40,282	16,718	16,452	73,452	66,280	71,916
Total equity and liabilities	40,282	16,718	21,633	78,633	71,154	76,909

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 businesses are included in the column for 'Other business'.

C2.2

US insurance operations

		2017 £m		2016 £m		
		Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	30 Jun Total	30 Jun Total	31 Dec Total
	Note					
Assets						
Deferred acquisition costs and other intangible assets		-	8,187	8,187	7,081	8,323
Property, plant and equipment		-	224	224	213	237
Reinsurers' share of insurance contract liabilities		-	6,740	6,740	6,859	7,224
Deferred tax assets		-	3,678	3,678	3,369	3,861
Current tax recoverable		-	348	348	254	95
Accrued investment income		-	493	493	520	549
Other debtors		-	260	260	18	295
Investment properties		-	6	6	5	6
Loans	C3.3	-	9,497	9,497	8,504	9,735
Equity securities and portfolio holdings in unit trusts		124,735	324	125,059	104,124	120,747
Debt securities	C3.2	-	38,029	38,029	41,143	40,745
Derivative assets		-	906	906	1,608	834
Other investments		-	932	932	895	987
Cash and cash equivalents		-	1,194	1,194	1,056	1,054
Total assets		124,735	70,818	195,553	175,649	194,692
Total equity		-	5,011	5,011	5,056	5,204
Liabilities						
	C4.1(c)	124,735	53,044	177,779	159,155	177,626

Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)					
Core structural borrowings of shareholder-financed operations	-	192	192	186	202
Operational borrowings attributable to shareholder-financed operations	-	453	453	70	480
Obligations under funding, securities lending and sale and repurchase agreements	-	4,518	4,518	3,144	3,534
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	-	-	-	23	-
Deferred tax liabilities	-	2,981	2,981	3,204	2,831
Current tax liabilities	-	58	58	-	-
Accruals, deferred income and other liabilities	-	4,517	4,517	4,385	4,749
Provisions	-	1	1	5	2
Derivative liabilities	-	43	43	421	64
Total liabilities	124,735	65,807	190,542	170,593	189,488
Total equity and liabilities	124,735	70,818	195,553	175,649	194,692

C2.3

UK insurance operations

		2017 £m			2016 £m			
		With-profits sub-funds	Other funds and subsidiaries		Total	30 Jun Total	30 Jun Total	31 Dec Total
			Unit-linked assets and liabilities	Annuity and other long-term business				
By operating segment	Note	note (i)						
Assets								

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Goodwill		26	-	-	-	26	189	153
Deferred acquisition costs and other intangible assets		82	-	86	86	168	89	107
Property, plant and equipment		327	-	17	17	344	866	343
Reinsurers' share of insurance contract liabilities		1,308	135	1,117	1,252	2,560	2,362	2,590
Deferred tax assets		73	-	54	54	127	139	146
Current tax recoverable		179	-	132	132	311	256	283
Accrued investment income		1,040	93	517	610	1,650	1,518	1,915
Other debtors		1,895	224	677	901	2,796	2,778	2,447
Investment properties		12,962	650	1,595	2,245	15,207	13,930	14,635
Investment in joint ventures and associates accounted for using the equity method		405	-	-	-	405	462	409
Loans	C3.3	4,036	-	1,748	1,748	5,784	3,616	3,572
Equity securities and portfolio holdings in unit trusts		43,023	15,339	36	15,375	58,398	49,150	54,037
Debt securities	C3.2	49,165	6,743	35,394	42,137	91,302	89,114	90,796
Derivative assets		2,183	3	490	493	2,676	3,563	2,927
Other investments		4,608	5	1	6	4,614	3,926	4,449
Deposits		9,542	968	1,333	2,301	11,843	13,184	10,705
Assets held for sale (ii)		33	-	-	-	33	30	726
Cash and cash equivalents		3,230	762	573	1,335	4,565	3,445	4,703
Total assets		134,117	24,922	43,770	68,692	202,809	188,617	194,943
Total equity		-	-	6,227	6,227	6,227	6,163	5,999
Liabilities								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(d)	106,362	22,917	33,574	56,491	162,853	151,233	157,654
Unallocated surplus of with-profits funds	C4.1(d)	12,087	-	-	-	12,087	11,246	11,650
Operational borrowings		-	4	143	147	147	163	167

attributable to shareholder-financed operations							
Borrowings attributable to with-profits operations	3,316	-	-	-	3,316	1,421	1,345
Obligations under funding, securities lending and sale and repurchase agreements	1,216	-	674	674	1,890	1,619	1,497
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,152	1,856	28	1,884	5,036	5,368	5,594
Deferred tax liabilities	1,354	-	292	292	1,646	1,253	1,577
Current tax liabilities	246	68	137	205	451	363	447
Accruals, deferred income and other liabilities	5,604	76	1,355	1,431	7,035	5,896	6,176
Provisions	62	-	288	288	350	156	442
Derivative liabilities	718	1	1,052	1,053	1,771	3,736	1,860
Liabilities held for sale (ii)	-	-	-	-	-	-	535
Total liabilities	134,117	24,922	37,543	62,465	196,582	182,454	188,944
Total equity and liabilities	134,117	24,922	43,770	68,692	202,809	188,617	194,943

Notes

(i)

Includes the Scottish Amicable Insurance Fund which, at 30 June 2017, has total assets and liabilities of £5,943 million (30 June 2016: £6,282 million; 31 December 2016: £6,101 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 £10.9 billion (30 June 2016: £11.3 billion; 31 December 2016: £11.2 billion) of non-profits annuities liabilities.

(ii)

The assets and liabilities held for sale for the UK insurance operations comprise the investment properties and consolidated private equity investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the period end.

C3

Assets and liabilities - classification and measurement

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.

Other than the loans which have been designated at fair value through profit or loss, the loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The discount rate used is updated for 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 financial liabilities (other than derivative financial instruments) and borrowings that are carried at fair value through profit or loss is determined using discounted cash flows of the amounts expected to be paid.

(b)

Fair value hierarchy of financial instruments measured at fair value on recurring basis

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

The table below shows the financial instruments 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

	30 Jun 2017 £m			
	Level 1	Level 2	Level 3	
Analysis of financial investments, net of derivative liabilities by business type	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
With-profits Loans	-	-	1,906	1,906
Equity securities and portfolio holdings in unit trusts	51,136	4,282	426	55,844
Debt securities	28,122	44,145	296	72,563
Other investments (including derivative assets)	73	3,310	3,464	6,847
Derivative liabilities	(79)	(752)	-	(831)
	79,252	50,985	6,092	136,329

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Total financial investments, net of derivative liabilities				
Percentage of total	58%	38%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	152,050	399	23	152,472
Debt securities	5,243	4,943	-	10,186
Other investments (including derivative assets)	4	3	4	11
Derivative liabilities	(2)	-	-	(2)
Total financial investments, net of derivative liabilities	157,295	5,345	27	162,667
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	-	309	2,594	2,903
Equity securities and portfolio holdings in unit trusts	2,104	7	10	2,121
Debt securities	21,525	66,233	286	88,044
Other investments (including derivative assets)	(25)	1,526	996	2,497
Derivative liabilities	(1)	(1,576)	(460)	(2,037)
Total financial investments, net of derivative liabilities	23,603	66,499	3,426	93,528
Percentage of total	25%	71%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	309	4,500	4,809
Equity securities and portfolio holdings in unit trusts	205,290	4,688	459	210,437
Debt securities	54,890	115,321	582	170,793

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Other investments (including derivative assets)	52	4,839	4,464	9,355
Derivative liabilities	(82)	(2,328)	(460)	(2,870)
Total financial investments, net of derivative liabilities	260,150	122,829	9,545	392,524
Investment contract liabilities without discretionary participation features held at fair value	-	(17,166)	-	(17,166)
Borrowings attributable to with-profits operations	-	-	(1,816)	(1,816)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,719)	(2,421)	(437)	(8,577)
Other financial liabilities held at fair value	-	(394)	(2,766)	(3,160)
Total financial instruments at fair value	254,431	102,848	4,526	361,805
Percentage of total	70%	29%	1%	100%

	30 Jun 2016 £m			
	Level 1	Level 2	Level 3	
Analysis of financial investments, net of derivative liabilities by business type	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
With-profits Equity securities and portfolio holdings in unit trusts	38,596	3,969	630	43,195
Debt securities	24,430	42,741	662	67,833
Other investments (including derivative assets)	103	3,157	3,674	6,934
Derivative liabilities	(192)	(2,536)	-	(2,728)

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Total financial investments, net of derivative liabilities	62,937	47,331	4,966	115,234
Percentage of total	55%	41%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	130,977	401	27	131,405
Debt securities	4,956	5,059	-	10,015
Other investments (including derivative assets)	11	38	5	54
Derivative liabilities	(19)	(51)	-	(70)
Total financial investments, net of derivative liabilities	135,925	5,447	32	141,404
Percentage of total	96%	4%	0%	100%
Non-linked shareholder-backed				
Loans	-	259	2,448	2,707
Equity securities and portfolio holdings in unit trusts	1,402	1	34	1,437
Debt securities	23,379	66,823	317	90,519
Other investments (including derivative assets)	-	2,369	983	3,352
Derivative liabilities	-	(2,064)	(480)	(2,544)
Total financial investments, net of derivative liabilities	24,781	67,388	3,302	95,471
Percentage of total	26%	71%	3%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	259	2,448	2,707
Equity securities and portfolio holdings in unit trusts	170,975	4,371	691	176,037
Debt securities	52,765	114,623	979	168,367

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Other investments (including derivative assets)	114	5,564	4,662	10,340
Derivative liabilities	(211)	(4,651)	(480)	(5,342)
Total financial investments, net of derivative liabilities	223,643	120,166	8,300	352,109
Investment contract liabilities without discretionary participation features held at fair value	-	(16,178)	-	(16,178)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,275)	(2,427)	(1,068)	(8,770)
Other financial liabilities held at fair value	-	(375)	(2,616)	(2,991)
Total financial instruments at fair value	218,368	101,186	4,616	324,170
Percentage of total	67%	31%	2%	100%

	31 Dec 2016 £m			
	Level 1	Level 2	Level 3	
Analysis of financial investments, net of derivative liabilities by business type	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
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

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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)
Total financial investments, net of derivative liabilities	151,775	4,820	27	156,622
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 consolidated unit trusts and similar funds	(4,217)	(3,587)	(883)	(8,687)
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 £37,936 million (30 June 2016: £41,045 million; 31 December 2016: £40,645 million) of debt securities classified as available-for-sale.

The Korea life business was classified as held for sale in the second half of 2016, with the sale completed in May 2017. Accordingly, the financial instruments shown above only included the assets and liabilities of Korea life business as at 30 June 2016 (prior to its classification as held for sale). 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.

(c)

Valuation approach for level 2 fair valued financial instruments

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. For further detail on the valuation approach for level 2 fair valued financial instruments please refer to note C3.1 of the Group's consolidated financial statements for the year ended 31 December 2016.

Of the total level 2 debt securities of £115,321 million at 30 June 2017 (30 June 2016: £114,623 million; 31 December 2016: £116,257 million), £13,596 million are valued internally (30 June 2016: £11,867 million; 31 December 2016: £12,708 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 financial instruments

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 fair valued financial instruments at 1 January 2017 to that presented at 30 June 2017.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

	£m									
Half year 2017	At 1 Jan 2017	Total gains (losses) in income statement	Total gains (losses) recorded in other comprehensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2017
Loans	2,699	96	(132)	1,879	-	(70)	28	-	-	4,500
Equity securities and portfolio holdings in unit trusts	722	(17)	(2)	175	(418)	-	-	-	(1)	459
Debt securities	942	2	(11)	142	(471)	-	-	-	(22)	582
Other investments (including derivative assets)	4,480	84	(64)	191	(227)	-	-	-	-	4,464
Derivative liabilities	(516)	56	-	-	-	-	-	-	-	(460)
Total financial investments, net of derivative liabilities	8,327	221	(209)	2,387	(1,116)	(70)	28	-	(23)	9,545
Borrowings attributable to	-	2	-	-	-	-	(1,818)	-	-	(1,816)

with-profits operations											
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(883)	(357)	-	-	(167)	1,017*	(47)	-	-	(437)	
Other financial liabilities	(2,851)	(96)	141	-	(1)	73	(32)	-	-	(2,766)	
Total financial instruments at fair value	4,593	(230)	(68)	2,387	(1,284)	1,020	(1,869)	-	(23)	4,526	
Half year 2016	At 1 Jan 2016	Total gains (losses) in income statement	Total gains (losses) recorded in other comprehensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2016	
Loans	2,183	79	227	-	-	(64)	23	-	-	2,448	
Equity securities and portfolio holdings in unit trusts	607	(13)	11	81	(4)	-	-	9	-	691	
Debt securities	778	66	7	120	(17)	-	-	30	(5)	979	
Other investments (including derivative assets)	4,276	184	265	377	(473)	-	-	33	-	4,662	
Derivative liabilities	(353)	(127)	-	-	-	-	-	-	-	(480)	
Total financial investments, net of derivative liabilities	7,491	189	510	578	(494)	(64)	23	72	(5)	8,300	
Net asset value attributable	(1,036)	24	(2)	-	1	62*	(117)	-	-	(1,068)	

to unit holders of consolidated unit trusts and similar funds										
Other financial liabilities	(2,347)	(84)	(243)	-	-	99	(41)	-	-	(2,616)
Total financial instruments at fair value	4,108	129	265	578	(493)	97	(135)	72	(5)	4,616
Full year 2016	At 1 Jan 2016	Total gains (losses) in income								