

PRUDENTIAL PLC
Form 6-K
August 08, 2018

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, 2018

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 2018 results

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED INCOME STATEMENT

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		2018 £m	2017 £m	
	Note	Half year	Half year	Full year
Gross premiums earned		21,341	22,105	44,005
Outward reinsurance premiums*		(12,961)	(947)	(2,062)
Earned premiums, net of reinsurance		8,380	21,158	41,943
Investment return		1,434	20,629	42,189
Other income**		1,105	1,137	2,258
Total revenue, net of reinsurance	B1.4	10,919	42,924	86,390
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(4,507)	(35,442)	(72,532)
Acquisition costs and other expenditure**	B2	(4,535)	(5,245)	(9,993)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(189)	(216)	(425)
(Loss) gain on disposal of businesses and corporate transactions	D1	(57)	61	223
Re-measurement of the sold Korea life business		-	5	5
Total charges, net of reinsurance and (loss) gain on disposal of businesses		(9,288)	(40,837)	(82,722)
Share of profits from joint ventures and associates, net of related tax		102	120	302
Profit before tax (being tax attributable to shareholders' and policyholders' returns)†		1,733	2,207	3,970
Less tax charge attributable to policyholders' returns		(33)	(393)	(674)
Profit before tax attributable to shareholders	B1.1	1,700	1,814	3,296
Total tax charge attributable to policyholders and shareholders	B4	(377)	(702)	(1,580)
Adjustment to remove tax charge attributable to policyholders' returns		33	393	674
Tax charge attributable to shareholders' returns	B4	(344)	(309)	(906)
Profit for the period		1,356	1,505	2,390
		2018 £m	2017 £m	
Attributable to:		Half year	Half year	Full year
Equity holders of the Company		1,355	1,505	2,389
Non-controlling interests		1	-	1
Profit for the period		1,356	1,505	2,390

	2018	2017	
	Half year	Half year	Full year
Earnings per share (in pence)			
Based on profit attributable to the equity holders of the Company:			
Basic	52.7p	58.7p	93.1p
Diluted	52.6p	58.6p	93.0p

	Note	2018	2017	
		Half year	Half year	Full year
Dividends per share (in pence)				
Dividends relating to reporting period:	B6			
First interim ordinary dividend		15.67p	14.50p	14.50p
Second interim ordinary dividend		-	-	32.50p
Total		15.67p	14.50p	47.00p
Dividends paid in reporting period:	B6			
Current year first interim ordinary dividend		-	-	14.50p
Second interim ordinary dividend for prior year		32.50p	30.57p	30.57p
Total		32.50p	30.57p	45.07p

*

Outward reinsurance premiums of £(12,961) million includes the £(12,130) million paid during the period in respect of the reinsurance of the UK annuity portfolio. See note D1 for further details.

**The half year and full year 2017 comparative results have been re-presented from those previously published for the deduction of certain expenses against revenue following the adoption of IFRS 15 (see note A2).

†

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

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2018 £m	2017 £m	
		Half year	Half year	Full year
Profit for the period		1,356	1,505	2,390

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		67	(220)	(404)
Cumulative exchange gain of the sold Korea life business recycled through profit and loss	D1	-	(61)	(61)
Related tax		2	(4)	(5)
		69	(285)	(470)

Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:

Net unrealised holding (losses) gains arising during the period		(1,392)	565	591
(Deduct net gains) Add back net losses included in the income statement on disposal and impairment		(29)	(34)	26
Total	C3.2(c)	(1,421)	531	617
Related change in amortisation of deferred acquisition costs	C5(b)	272	(69)	(76)
Related tax		241	(162)	(55)
		(908)	300	486

Total		(839)	15	16
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Items that will not be reclassified to profit or loss

Shareholders' share of actuarial gains and losses on defined benefit pension schemes:

Gross		81	53	104
Related tax		(14)	(7)	(15)
		67	46	89

Other comprehensive (loss) income for the period, net of related tax		(772)	61	105
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Total comprehensive income for the period		584	1,566	2,495
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Attributable to:	2018 £m	2017 £m	Full year
	Half year	Half year	
Equity holders of the Company	583	1,566	2,494
Non-controlling interests	1	-	1
Total comprehensive income for the period	584	1,566	2,495

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2018 £m

Share capital	Share premium	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non-controlling interests	Total equity
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Note note C9 note C9

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Reserves									
Profit for the period		-	-	1,355	-	-	1,355	1	1,356
Other comprehensive income (loss)		-	-	67	69	(908)	(772)	-	(772)
Total comprehensive income (loss) for the period		-	-	1,422	69	(908)	583	1	584
Dividends	B6	-	-	(840)	-	-	(840)	-	(840)
Reserve movements in respect of share-based payments		-	-	(9)	-	-	(9)	-	(9)
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		-	-	28	-	-	28	-	28
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	27	-	-	27	-	27
Net increase (decrease) in equity		-	6	628	69	(908)	(205)	1	(204)
At beginning of period		129	1,948	12,326	840	844	16,087	7	16,094
At end of period		129	1,954	12,954	909	(64)	15,882	8	15,890

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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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	-	-	-	46	(285)	300	61	-	61
Total comprehensive income for the period	-	-	-	1,551	(285)	300	1,566	-	1,566
Dividends	B6	-	-	(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	10	758	(285)	300	783	-	783
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)

	Year ended 31 December 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 year	-	-	-	2,389	-	-	2,389	1	2,390
Other comprehensive income (loss)	-	-	-	89	(470)	486	105	-	105
Total comprehensive income for the year	-	-	-	2,478	(470)	486	2,494	1	2,495
Dividends	B6	-	-	(1,159)	-	-	(1,159)	-	(1,159)
Reserve movements in respect of share-based payments	-	-	-	89	-	-	89	-	89
Change in non-controlling interests	-	-	-	-	-	-	-	5	5
Share capital and share premium									
New share capital subscribed	C9	-	21	-	-	-	21	-	21
Treasury shares									
Movement in own shares in respect of share-based payment plans	-	-	-	(15)	-	-	(15)	-	(15)
Movement in Prudential plc shares purchased by unit trusts	-	-	-	(9)	-	-	(9)	-	(9)

consolidated under IFRS Net increase (decrease) in equity	-	21	1,384	(470)	486	1,421	6	1,427
At beginning of year	129	1,927	10,942	1,310	358	14,666	1	14,667
At end of year	129	1,948	12,326	840	844	16,087	7	16,094

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2018 £m 30 Jun	2017 £m 30 Jun	31 Dec
Assets				
Goodwill	C5(a)	1,620	1,501	1,482
Deferred acquisition costs and other intangible assets	C5(b)	11,359	10,757	11,011
Property, plant and equipment		951	727	789
Reinsurers' share of insurance contract liabilities		9,620	9,709	9,673
Deferred tax assets	C7	2,435	4,105	2,627
Current tax recoverable		626	700	613
Accrued investment income		2,574	2,887	2,676
Other debtors		3,519	3,417	2,963
Investment properties		17,605	15,218	16,497
Investment in joint ventures and associates accounted for using the equity method		1,554	1,293	1,416
Loans	C3.3	16,922	16,952	17,042
Equity securities and portfolio holdings in unit trusts		229,707	210,437	223,391
Debt securities	C3.2	160,305	170,793	171,374
Derivative assets		3,428	3,789	4,801
Other investments		6,059	5,566	5,622
Deposits		12,412	13,353	11,236
Assets held for sale*		12,024	33	38
Cash and cash equivalents		8,450	9,893	10,690
Total assets	C1	501,170	481,130	493,941

Equity

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Shareholders' equity		15,882	15,449	16,087
Non-controlling interests		8	1	7
Total equity		15,890	15,450	16,094
Liabilities				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(a)	405,482	398,980	411,243
Unallocated surplus of with-profits funds	C4.1(a)	17,283	15,090	16,951
Core structural borrowings of shareholder-financed operations	C6.1	6,367	6,614	6,280
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	1,618	2,096	1,791
Borrowings attributable to with-profits operations	C6.2(b)	3,589	3,336	3,716
Obligations under funding, securities lending and sale and repurchase agreements		7,128	6,408	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		9,358	8,577	8,889
Deferred tax liabilities	C7	4,443	5,683	4,715
Current tax liabilities		415	743	537
Accruals, deferred income and other liabilities		13,551	14,524	14,185
Provisions		920	759	1,123
Derivative liabilities		3,149	2,870	2,755
Liabilities held for sale	D1	11,977	-	-
Total liabilities	C1	485,280	465,680	477,847
Total equity and liabilities		501,170	481,130	493,941

*

Assets held for sale of £12,024 million includes £11,977 million in respect of the reinsured UK annuity business (see note D1).

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,993 million of lent securities as at 30 June 2018 (30 June 2017: £9,182 million; 31 December 2017: £8,232 million).

International Financial Reporting Standards (IFRS) Basis Results

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2018 £m	2017 £m		
	Note	Half year	Half year	Full year
Cash flows from operating activities				
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)		1,733	2,207	3,970
Other non-investment and non-cash assets		(389)	(550)	(49,771)
Investments		7,616	(26,539)	(968)
Policyholder liabilities (including unallocated surplus)		(10,725)	21,597	44,877
Other liabilities (including operational borrowings)		568	3,390	3,360
Other itemsnote (ii)		466	(15)	152
Net cash flows from operating activities		(731)	90	1,620
Cash flows from investing activities				
Net cash outflows from purchases and disposals of property, plant and equipment		(167)	(56)	(134)
Net cash (outflows) inflows from corporate transactionsnote (iii)		(248)	813	950
Net cash flows from investing activities		(415)	757	816
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations:note (iv) C6.1				
Issue of subordinated debt, net of costs		-	-	565
Redemption of subordinated debt		-	-	(751)
Interest paid		(187)	(207)	(369)
With-profits operations:note (v) C6.2				
Redemption of subordinated debt		(100)	-	-
Interest paid		(4)	(4)	(9)
Equity capital:				
Issues of ordinary share capital		6	10	21
Dividends paid		(840)	(786)	(1,159)
Net cash flows from financing activities		(1,125)	(987)	(1,702)
Net (decrease) increase in cash and cash equivalents		(2,271)	(140)	734
Cash and cash equivalents at beginning of period		10,690	10,065	10,065
Effect of exchange rate changes on cash and cash equivalents		31	(32)	(109)

Cash and cash equivalents at end of period	8,450	9,893	10,690
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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 2018 are analysed as follows:

	Cash movements £m			Non-cash movements £m		Balance at end of period
	Balance at beginning of period	Issue of debt	Redemption of debt	Foreign exchange movement	Other movements	
Half year 2018	6,280	-	-	83	4	6,367
Half year 2017	6,798	-	-	(191)	7	6,614
Full year 2017	6,798	565	(751)	(341)	9	6,280

(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. These bonds were redeemed in full on 30 June 2018. 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 2018 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 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 2018, there

were no unendorsed standards effective for the period ended 30 June 2018 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 2018 and 2017 half years are unaudited. The 2017 full year IFRS basis results have been derived from the 2017 statutory accounts. The auditors have reported on the 2017 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 2018	Average for the 6 months to 30 Jun 2018	Closing rate at 30 Jun 2017	Average for the 6 months to 30 Jun 2017	Closing rate at 31 Dec 2017	Average for the 12 months to 31 Dec 2017
Local currency: £						
Hong Kong	10.36	10.78	10.14	9.80	10.57	10.04
Indonesia	18,919.18	18,938.64	17,311.76	16,793.63	18,353.44	17,249.38
Malaysia	5.33	5.42	5.58	5.53	5.47	5.54
Singapore	1.80	1.83	1.79	1.77	1.81	1.78
China	8.75	8.76	8.81	8.66	8.81	8.71
India	90.46	90.37	83.96	82.77	86.34	83.90
Vietnam	30,310.96	31,329.01	29,526.43	28,612.70	30,719.60	29,279.71
Thailand	43.74	43.66	44.13	43.72	44.09	43.71
US	1.32	1.38	1.30	1.26	1.35	1.29

Certain notes to the financial statements present half year 2017 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 2017, as disclosed in the 2017 statutory accounts, aside from those discussed in note A2 below.

A2

New accounting pronouncements in 2018

IFRS 15, 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15, 'Revenue from Contracts with Customers' from 1 January 2018. This standard provides a single framework to recognise revenue for contracts with different characteristics and overrides the revenue recognition requirements previously provided in other standards. The contracts excluded from the scope of this standard include:

–

Lease contracts within the scope of IAS 17 'Leases';

- Insurance contracts within the scope of IFRS 4 ‘Insurance Contracts’; and
- Financial instruments within the scope of IAS 39 ‘Financial Instruments’.

As a result, the main impacts of IFRS 15 in the context of Prudential’s business are to the recognition of revenue in respect of asset management contracts and investment contracts that do not contain discretionary participating features but do include investment management services.

In accordance with the transition provisions in IFRS 15, the Group has adopted the standard using the full retrospective method for all periods presented. Adoption of the standard has not resulted in a restatement of the Group’s profit for the periods presented or shareholders’ equity. A minor reclassification has been made to the consolidated income statement to present certain expenses as a deduction against revenue, for example rebates to clients of asset management fees. Revenue has been reduced by £82 million in half year 2018 (half year 2017: £85 million; full year 2017: £172 million).

IFRS 9, ‘Financial Instruments’

The IASB published a complete version of IFRS 9 in July 2014 and the standard is mandatorily effective for annual periods beginning on or after 1 January 2018.

In September 2016, the IASB published amendments to IFRS 4, ‘Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts’ to address the temporary consequences of the different effective dates of IFRS 9 and IFRS 17, ‘Insurance Contracts’. The amendments include an optional temporary exemption from applying IFRS 9 and the associated amendments until IFRS 17 comes into effect in 2021. This temporary exemption is available to companies whose predominant activity is to issue insurance contracts based on meeting the eligibility criteria as at 31 December 2015 as set out in the amendments. The Group met the eligibility criteria and will defer the adoption of IFRS 9 to 1 January 2021.

Other new accounting pronouncements

In addition to the above, the IASB has also issued the following new accounting pronouncements to be effective for 1 January 2018:

- IFRIC 22, ‘Foreign Currency Transactions and Advance consideration’;
- Classification and measurement of share-based payment transactions (Amendments to IFRS 2, ‘Share-based payment’);
- Transfers of Investment Property (Amendments to IAS 40, ‘Investment property’); and
- Annual Improvements to IFRSs 2014-2016 Cycle.

These pronouncements have had no effect on the Group financial statements.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1

Segment results – profit before tax

		2018 £m	2017* £m		%		2017 £m
	Note	Half year	AER Half year	CER Half year	vs half year 2017 AER note (v)	vs half year 2017 CER note (v)	AER Full year
			note (iv)	note (v)			
Asia							
Insurance operations	B3(a)	927	870	812	7%	14%	1,799
Asset management		89	83	79	7%	13%	176
Total Asia		1,016	953	891	7%	14%	1,975
US							
Jackson (US insurance operations)		1,001	1,079	988	(7)%	1%	2,214
Asset management		1	(6)	(6)	117%	117%	10
Total US		1,002	1,073	982	(7)%	2%	2,224
UK and Europe							
UK and Europe insurance operations:	B3(b)						
Long-term business		487	480	480	1%	1%	861
General insurance commission		19	17	17	12%	12%	17
(i)							
Total UK and Europe insurance operations		506	497	497	2%	2%	878
UK and Europe asset management		272	248	248	10%	10%	500
note (vi)							
Total UK and Europe		778	745	745	4%	4%	1,378
Total segment profit		2,796	2,771	2,618	1%	7%	5,577
Restructuring costs		(62)	(31)	(31)	(100)%	(100)%	(103)
note (iii)							
Other income and expenditure:							
Investment return and other income		33	6	6	450%	450%	11
Interest payable on core structural borrowings		(189)	(216)	(216)	13%	13%	(425)
Corporate expenditure		(173)	(172)	(166)	(1)%	(4)%	(361)
note (ii)							
Total other income and expenditure		(329)	(382)	(376)	14%	13%	(775)
Operating profit based on longer-term investment returns	B1.3	2,405	2,358	2,211	2%	9%	4,699
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(113)	(573)	(523)	80%	78%	(1,563)
Amortisation of acquisition accounting adjustments		(22)	(32)	(29)	31%	24%	(63)
note (iv)							
(Loss) gain on disposal of businesses and corporate transactions	D1	(570)	61	61	n/a	n/a	223
Profit before tax		1,700	1,814	1,720	(6)%	(1)%	3,296
Tax charge attributable to shareholders' returns	B4	(344)	(309)	(295)	(11)%	(17)%	(906)
Profit for the period		1,356	1,505	1,425	(10)%	(5)%	2,390
Attributable to:							

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Equity holders of the Company	1,355	1,505	1,425	(10)%	(5)%	2,389
Non-controlling interests	1	-	-	n/a	n/a	1
	2018	2017		%		2017
				Half year 2018	Half year 2018	
	Note	Half year	AER Half year	CER Half year	vs half year 2017	AER Full year
				AER	CER	
Basic earnings per share (in pence)	B5		note (v)	note (v)	note (v)	note (v)
Based on operating profit based on longer-term investment returns		76.8p	70.0p	65.7p	10%	17%
Based on profit for the period		52.7p	58.7p	55.6p	(10)%	(5)%
						93.1p

*
The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

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 primarily for Group Head Office and Asia Regional Head Office.

(iii)
Restructuring costs are incurred primarily in the UK, Europe and Asia and represent the costs of business transformation and integration costs.

(iv)
Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.

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

(vi)
UK and Europe asset management operating profit based on longer-term investment returns:

	2018 £m	2017 £m	
	Half year	Half year	Full year
Asset management fee income	552	491	1,027
Other income	1	4	7
Staff costs	(190)	(166)	(400)
Other costs	(107)	(95)	(202)
Underlying profit before performance-related fees	256	234	432
Share of associate results	8	8	15
Performance-related fees	8	6	53
Total UK and Europe asset management operating profit based on longer-term investment returns	272	248	500

B1.2

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

2018 £m	2017 £m	
Half year	Half year*	Full year

Asianote (i)	(326)	41	(1)
USnote (ii)	244	(754)	(1,568)
UK and Euronote (iii)	(122)	42	(14)
Other operations (iv)	91	98	20
Total	(113)	(573)	(1,563)

*

The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

Notes

(i)

Asia operations

In Asia, the negative short-term fluctuations of £(326) million principally reflect net value movements on shareholders' assets and related liabilities following increases in bond yields during the period (half year 2017: positive £41 million; full year 2017: negative £1 million).

(ii)

US operations

The short-term fluctuations in investment returns for US insurance operations are reported net of the related charge for amortisation of deferred acquisition costs of £(199) million as shown in note C5 (half year 2017: credit of £231 million; full year 2017: credit of £462 million) and comprise amounts in respect of the following items:

	2018 £m	2017 £m	
	Half year	Half year	Full year
Net equity hedge result note (a)	383	(782)	(1,490)
Other than equity-related derivatives note (b)	(183)	12	(36)
Debt securities note 6 (c)		5	(73)
Equity-type investments: actual less longer-term return	31	1	12
Other items	7	10	19
Total	244	(754)	(1,568)

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. The level of fees recognised in non-operating profit is determined by reference to that allowed for within the reserving basis. Both FAS157 and SOP 03-01 reserving methods require an entity to determine the total fee ("the fee assessment") that is expected to fund future projected benefit payments arising using the assumptions applicable for that method. FAS 157 requires this fee assessment to be fixed at the time of issue. It is this fee assessment that is recognised within non-operating profit to match the relevant movement in the guarantee liability, which is also recognised in non-operating profit. 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. For further details, please refer to note B1.3(c) of the Group's consolidated financial statements for the year ended 31 December 2017.

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.

The net equity hedge result (net of related DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins) can be summarised as follows:

	2018 £m	2017 £m	
	Half year	Half year	Full year
Fair value movements on equity hedge instruments*	(375)	(1,126)	(1,871)
Accounting value movements on the variable and fixed index annuity guarantee liabilities	505	111	(99)
Fee assessments net of claim payments	253	233	480
Total	383	(782)	(1,490)

* Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options.

(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;
- Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued; and
- Related amortisation of DAC.

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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. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c)

Short-term fluctuations related to debt securities

	2018		2017 £m	
	£m		Half	Full
	Half	year	year	year
Short-term fluctuations relating to debt securities				
(Charges) credits in the period:				
Losses on sales of impaired and deteriorating bonds	(1)		(2)	(3)
Bond write-downs	(2)		(1)	(2)
Recoveries/reversals	18		7	10
Total credits in the period	15		4	5
Less: Risk margin allowance deducted from operating profit based on longer-term investment returnsnote	38		46	86
	53		50	91
Interest-related realised (losses) gains:				
Gains (losses) arising in the period	8		23	(43)
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	(57)		(72)	(140)
	(49)		(49)	(183)
Related amortisation of deferred acquisition costs	2		4	19
Total short-term fluctuations related to debt securities	6		5	(73)

Note

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for half year 2018 is based on an average annual risk margin reserve of 19 basis points (half year 2017: 21 basis points; full year 2017: 21 basis points) on average book values of US\$54.9 billion (half year 2017: US\$55.8 billion; full year 2017: US\$55.3 billion) as shown below:

Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	Half year 2018				Half year 2017				Full year 2017			
	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	26,260	0.11	(29)	(21)	27,848	0.13	(35)	(28)	27,277	0.12	(33)	(25)
Baa1, 2 or 3	27,337	0.20	(57)	(41)	26,601	0.23	(60)	(47)	26,626	0.22	(58)	(45)
Ba1, 2 or 3	978	1.01	(10)	(7)	1,052	1.03	(11)	(9)	1,046	1.03	(11)	(8)

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B1, 2 or 3	309	2.61	(8)	(6)	311	2.75	(9)	(7)	318	2.70	(9)	(7)
Below B3	11	3.71	-	-	27	3.80	(1)	(1)	23	3.78	(1)	(1)
Total	54,895	0.19	(104)	(75)	55,839	0.21	(116)	(92)	55,290	0.21	(112)	(86)
Related amortisation of deferred acquisition costs (see below)			22	15			22	17			21	15
Risk margin reserve charge to operating profit for longer-term credit-related losses			(82)	(60)			(94)	(75)			(91)	(71)

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 charge of £(1,149) million for net unrealised losses on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (half year 2017: credit of £462 million for net unrealised gains; full year 2017: credit of £541 million for net unrealised gains). 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 and Europe operations

The negative short-term fluctuations in investment returns for UK and Europe operations of £(122) million (half year 2017: positive £42 million; full year 2017: negative £(14) million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iv)

Other operations

Short-term fluctuations in investment returns for other operations of positive £91 million (half year 2017: positive £98 million; full year 2017: positive £20 million) include unrealised value movements on financial instruments held outside of the main life operations.

B1.3

Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments for financial reporting are defined and presented in accordance with IFRS 8, 'Operating Segments' on the basis of the management reporting structure and its financial management information.

Under the Group's management and reporting structure its chief operating decision maker is the Group Executive Committee (GEC). In the management structure, responsibility is delegated to the Chief Executive Officers of Prudential Corporation Asia, the North American Business Unit and M&G Prudential for the day-to-day management of their business units (within the framework set out in the Group Governance Manual). Financial management information used by the GEC aligns to these three business segments. These operating segments derive revenue from both long-term insurance and asset management activities.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include Group Head Office and Asia Regional Head Office costs. Prudential Capital and Africa operations do not form part of any operating segment under the structure, and their assets and liabilities and loss before tax are not material to the overall financial position of the Group. Prudential Capital and Africa operations are therefore reported as 'Unallocated to a segment'.

The Group reassessed its segments in the second half of 2017 following the combination of the Group's UK insurance business and M&G to form M&G Prudential. Comparative segmental information for half year 2017 has been re-presented on a basis consistent with the current period.

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 corporate transactions, such as disposals undertaken in the period.

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 2017.

For Group debt securities at 30 June 2018, 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 £818 million (30 June 2017: net gain of £876 million; 31 December 2017: net gain of £855 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 £1,622 million as at 30 June 2018 (30 June 2017: £1,535 million; 31 December 2017: £1,759 million). The rates of return applied for 2018 ranged from 5.1 per cent to 17.2 per cent (30 June 2017: 4.7 per cent to 17.2 per cent; 31 December 2017: 5.0 per cent to 17.2 per cent) with the rates applied varying by business unit.
- For US insurance operations, at 30 June 2018, the equity-type securities for non-separate account operations amounted to £1,187 million (30 June 2017: £1,256 million; 31 December 2017: £946 million). The longer-term rates of return for income and capital applied in 2018 and 2017, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums, are as follows:

	2018	2017	
	Half year	Half year	Full year
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.7% to 7.0%	6.2% to 6.5%	6.1% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	9.0%	8.7% to 8.5%	8.2% to 8.1% to 8.5%

B1.4

Additional segmental analysis of revenue

The additional segmental analysis of revenue net of outward reinsurance premiums is as follows:

	Half year 2018 £m					
	Asia	US	UK and Europe	Total segment	Unallo- cated to a segment (central operations)	Group total
Gross premiums earned	7,736	7,036	6,555	21,327	14	21,341
Outward reinsurance premiums ^{note (i)}	(222)	(141)	(12,598)	(12,961)	-	(12,961)
Earned premiums, net of reinsurance	7,514	6,895	(6,043)	8,366	14	8,380
Other income ^{note (ii)}	157	44	890	1,091	14	1,105
Total external revenue ^{note (iv)}	7,671	6,939	(5,153)	9,457	28	9,485
Intra-group revenue	20	32	1	53	(53)	-
Interest income	513	940	1,530	2,983	26	3,009
Other investment return	(1,703)	1,486	(1,478)	(1,695)	120	(1,575)
Total revenue, net of reinsurance	6,501	9,397	(5,100)	10,798	121	10,919

	Half year 2017* £m					
	Asia	US	UK and Europe	Total segment	Unallo- cated to a segment (central operations)	Group total
Gross premiums	7,697	7,997	6,411	22,105	-	22,105

earned Outward reinsurance premiums	(243)	(168)	(536)	(947)	-	(947)
Earned premiums, net of reinsurance	7,454	7,829	5,875	21,158	-	21,158
Other incomenote (ii),(iii)	159	374	580	1,113	24	1,137
Total external revenue (iv)	7,613	8,203	6,455	22,271	24	22,295
Intra-group revenue	19	31	2	52	(52)	-
Interest income	486	1,082	1,754	3,322	33	3,355
Other investment return	4,317	7,254	5,609	17,180	94	17,274
Total revenue, net of reinsurance	12,435	16,570	13,820	42,825	99	42,924

*

The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

	Full year 2017 £m				Unallo- cated	Group
	Asia	US	UK and Europe	Total segment	to a segment (central operations)	total
Gross premiums earned	15,688	15,164	13,126	43,978	27	44,005
Outward reinsurance premiums	(656)	(352)	(1,050)	(2,058)	(4)	(2,062)
Earned premiums, net of reinsurance	15,032	14,812	12,076	41,920	23	41,943
Other incomenote (ii),(iii)	307	669	1,234	2,210	48	2,258
	15,339	15,481	13,310	44,130	71	44,201

Total external revenue	note					
(iv)						
Intra-group revenue	40	64	5	109	(109)	-
Interest income	932	2,085	3,413	6,430	67	6,497
Other investment return	8,063	16,448	11,171	35,682	10	35,692
Total revenue, net of reinsurance	24,374	34,078	27,899	86,351	39	86,390

Notes

(i)
Outward reinsurance premiums of £(12,961) million includes the £(12,130) million paid during the period in respect of the reinsurance of the UK annuity portfolio. See note D1 for further details.

(ii)
Included within other income is revenue from the Group's asset management business of £764 million (half year 2017: £643 million; full year 2017: £1,371 million). The remaining other income includes revenue from external customers for policy fees, advisory fees and commission income. The half year 2017 and full year 2017 comparative also included amounts for broker-dealer fees generated by the US broker-dealer network, which was disposed of in August 2017, amounting to £305 million and £542 million respectively.

(iii)
Following the adoption of IFRS 15, the half year 2017 and full year 2017 comparative results have been re-presented as described in note A2.

(iv)
Total external revenue shown in the tables above is all from external customers except for £166 million within the half year 2018 amount for UK and Europe of £5,153 million. The £166 million represents the insurance recoveries recognised in respect of costs associated with the review of past annuity sales as described further in note B3.

B2

Acquisition costs and other expenditure

	2018 £m	2017 £m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	(1,648)	(1,920)	(3,712)
Acquisition costs deferred less amortisation of acquisition costs	(61)	399	911
Administration costs and other expenditure*	(2,705)	(2,970)	(6,208)
Movements in amounts attributable to external unit holders of consolidated investment funds	(121)	(754)	(984)
Total acquisition costs and other expenditure	(4,535)	(5,245)	(9,993)

*
Following the adoption of IFRS 15 the half year 2017 and full year 2017 comparative results have been re-presented as described in note A2.

Included in total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(54) million (half year 2017: £(60) million; full year 2017: £(116) million).

B3

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

The following matters are relevant to the determination of the half year 2018 results:

(a)

Asia insurance operations

In half year 2018, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £69 million (half year 2017: £54 million; full year 2017: £75 million) representing a small number of items that are not expected to reoccur, including the impact of a refinement to the run-off of the allowance for prudence within technical provisions.

(b)

UK and Europe 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.

The IFRS credit risk allowance made for the UK shareholder-backed fixed and linked annuity business equated to 44 basis points at 30 June 2018 (30 June 2017: 43 basis points; 31 December 2017: 42 basis points). The allowance represented 26 per cent of the bond spread over swap rates (30 June 2017: 28 per cent; 31 December 2017: 28 per cent).

The reserves for credit risk allowance at 30 June 2018 for the UK shareholder-backed business were £1.1 billion (30 June 2017: £1.7 billion; 31 December 2017: £1.6 billion). The 30 June 2018 credit risk allowance information is after reflecting the impact of the reinsurance of £12.0 billion of the UK shareholder-backed annuity portfolio to Rothesay Life entered into in March 2018. See note D1 for further details.

Longevity reinsurance and other management actions

Aside from the aforementioned reinsurance agreement with Rothesay Life, no new longevity reinsurance transactions were undertaken in the first half of 2018 (half year 2017: longevity reinsurance transactions covering £0.6 billion of IFRS annuity liabilities contributed £31 million to profit). Other management actions generated profits of £63 million (half year 2017: £157 million; full year 2017: £245 million).

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 is examining whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. A gross provision of £400 million, before costs incurred, had been established at 31 December 2017 to cover the costs of undertaking the review and any related redress. Following a reassessment of the provision held, no further amount has been provided in the first half of 2018. The ultimate amount that will be expended by the Group on the review, which is currently expected to be completed in 2019, remains uncertain. In the first half of 2018, the Group agreed with its professional indemnity insurers that they will meet £166 million of the Group's claims costs, which will be paid as the Group incurs costs/redress. This has been recognised on the Group's

balance sheet within “Other debtors” at 30 June 2018.

B4

Tax charge

(a)

Total tax charge by nature of expense

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

Tax charge	2018 £m		2017 £m		2017 £m
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
Attributable to shareholders:					
Asia operations	(90)	(49)	(139)	(144)	(253)
US operations	-	(216)	(216)	(46)	(508)
UK and Europe	(43)	17	(26)	(150)	(267)
Other operations	43	(6)	37	31	122
Tax charge attributable to shareholders' returns	(90)	(254)	(344)	(309)	(906)
Attributable to policyholders:					
Asia operations	(47)	4	(43)	(131)	(249)
UK and Europe	(64)	74	10	(262)	(425)
Tax (charge) credit attributable to policyholders' returns	(111)	78	(33)	(393)	(674)
Total tax charge	(201)	(176)	(377)	(702)	(1,580)

The principal reason for the increase in the tax charge attributable to shareholders' returns is an increase in the proportion of profits arising in US operations, offset by decreases in the proportion of profits arising in UK and Europe. The principal reason for the decrease in the tax charge attributable to policyholders' returns is a decrease in the deferred tax liabilities on unrealised gains on investments in the with profits funds of the UK and Europe compared to the first half of 2017 and an increase in deferred tax liabilities on policyholder reserves reflecting growth in Asia.

The current tax charge of £201 million (half year 2017: £427 million; full year 2017: £696 million) includes £28 million (half year 2017: £37 million; full year 2017: £59 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.

(b)

Reconciliation of shareholder effective tax rate

In the reconciliation below, the expected tax rates reflect the corporation 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.

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	Half year 2018 £m				Total attributable to shareholders	Percentage impact on ETR
	Asia operations	US operations	UK and Europe	Other operations*		
Operating profit (loss) based on longer-term investment returns	1,016	1,002	778	(391)	2,405	
Non-operating (loss) profit	(338)	184	(635)	84	(705)	
Profit (loss) before tax	678	1,186	143	(307)	1,700	
Expected tax rate	22%	21%	19%	19%	22%	
Tax at the expected rate	149	249	27	(58)	367	21.6%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(11)	(5)	(1)	(3)	(20)	(1.2%)
Deductions not allowable for tax purposes	23	1	1	1	26	1.5%
Items related to taxation of life insurance businessesnote (i)	(2)	(34)	1	-	(35)	(2.1%)
Deferred tax adjustments	(9)	-	-	(8)	(17)	(1.0%)
Effect of results of joint ventures and associatesnote (ii)	(20)	-	(2)	-	(22)	(1.3%)
Irrecoverable withholding taxesnote (iii)	-	-	-	26	26	1.5%
Other	-	2	1	2	5	0.4%
Total	(19)	(36)	-	18	(37)	(2.2%)
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years ¹		3	(1)	3	6	0.4%
Movements in provisions for open tax mattersnote (iv)	8	-	-	-	8	0.4%
Total	9	3	(1)	3	14	0.8%
Total actual tax charge (credit)	139	216	26	(37)	344	20.2%
Analysed into:						
Tax on operating profit based on longer-term investment returns	151	177	150	(49)	429	
Tax on non-operating profit	(12)	39	(124)	12	(85)	
Actual tax rate:						
Operating profit based on longer-term investment returns:						
Including non-recurring tax reconciling items	15%	18%	19%	13%	18%	
Excluding non-recurring tax reconciling items	14%	17%	19%	13%	17%	
Total profit	21%	18%	18%	12%	20%	

*

Other operations include restructuring costs.

Notes

(i)

Items related to taxation of life insurance businesses

The £34 million (half year 2017: £85 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. The reduction from half year 2017 is a result of the US tax reform changes, which took effect from 1 January 2018. The principal reason for the reduction in the Asia operations reconciling items from £43 million at half year 2017 to £2 million at half year 2018 reflects non-operating investment losses in Hong Kong which do not attract tax relief due to the taxable profit being computed as 5 per cent of net insurance premiums.

(ii)

Effects of results of joint ventures and associates

Profit before tax includes Prudential's share of profits after tax from the joint ventures and associates. Therefore, the actual tax charge does not include tax arising from profit or loss of joint ventures and associates and is reflected as a reconciling item in the table above.

(iii)

Irrecoverable withholding taxes

The £26 million (half year 2017: £29 million) adverse reconciling items reflects local withholding taxes on dividends paid by certain non-UK subsidiaries, principally Indonesia, to the UK. The dividends are exempt from UK tax and consequently the withholding tax cannot be offset against UK tax payments.

(iv)

Movements in provisions for open tax matters

The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. This uncertainty means that in the normal course of business the Group will have matters where upon ultimate resolution of the uncertainty, the amount of profit subject to tax may be greater than the amounts reflected in the Group's submitted tax returns. The statement of financial position contains the following provisions in relation to open tax matters:

	£m
At 31 December 2017	(139)
Movements in the current period included in:	
Tax charge attributable to shareholders	(8)
Other movements*	(2)
At 30 June 2018	(149)

*

Other movements include interest arising on open tax matters and amounts included in the Group's share of profits from joint ventures and associates, net of related tax.

	Half year 2017 £m**				Total attributable to shareholders	Percentage impact on ETR
	Asia operations	US operations	UK and Europe	Other operations*		
Operating profit (loss) based on longer-term investment returns	953	1,073	745	(413)	2,358	
Non-operating profit (loss)	98	(782)	42	98	(544)	
Profit (loss) before tax	1,051	291	787	(315)	1,814	
Expected tax rate	20%	35%	19%	19%	22%	
Tax at the expected rate	210	102	150	(60)	402	22.2%

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Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(19)	(10)	-	(2)	(31)	(1.7)%
Deductions not allowable for tax purposes	9	-	6	3	18	1.0%
Items related to taxation of life insurance businesses	(43)	(85)	(2)	-	(130)	(7.2)%
Deferred tax adjustments	4	-	(1)	-	3	0.2%
Effect of results of joint ventures and associates	(19)	-	(1)	-	(20)	(1.1)%
Irrecoverable withholding taxes	-	-	-	29	29	1.6%
Other	3	4	4	(1)	10	0.5%
Total	(65)	(91)	6	29	(121)	(6.7)%
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	-	10	(6)	-	4	0.2%
Movements in provisions for open tax matters	7	25	-	-	32	1.7%
Cumulative exchange gains on the sold Korea life business recycled from other comprehensive income	(8)	-	-	-	(8)	(0.4)%
Total	(1)	35	(6)	-	28	1.5%
Total actual tax charge (credit)	144	46	150	(31)	309	17.0%
Analysed into:						
Tax on operating profit based on longer-term investment returns	152	321	140	(50)	563	
Tax on non-operating profit	(8)	(275)	10	19	(254)	
Actual tax rate:						
Operating profit based on longer-term investment returns						
Including non-recurring tax reconciling items	16%	30%	19%	12%	24%	
Excluding non-recurring tax reconciling items	15%	27%	20%	12%	22%	
Total profit	14%	16%	19%	10%	17%	

*

Other operations include restructuring costs.

** The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

	Full year 2017 £m				Total attributable to shareholders	Percentage impact on ETR
	Asia operations	US operations	UK and Europe	Other operations*		
Operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	(878)	4,699	
Non-operating profit (loss)	53	(1,462)	(14)	20	(1,403)	

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Profit (loss) before tax	2,028	762	1,364	(858)	3,296	
Expected tax rate	21%	35%	19%	19%	24%	
Tax at the expected rate	426	267	259	(163)	789	23.9%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(64)	(11)	(2)	(14)	(91)	(2.8%)
Deductions not allowable for tax purposes	26	6	13	10	55	1.7%
Items related to taxation of life insurance businesses	(92)	(238)	(2)	-	(332)	(10.1%)
Deferred tax adjustments	11	17	(1)	(5)	22	0.7%
Effect of results of joint ventures and associates	(52)	-	(3)	-	(55)	(1.7%)
Irrecoverable withholding taxes	-	-	-	54	54	1.6%
Other	(10)	-	6	(1)	(5)	(0.1%)
Total	(181)	(226)	11	44	(352)	(10.7%)
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	(3)	(15)	(3)	(3)	(24)	(0.7%)
Movements in provisions for open tax matters	19	25	-	-	44	1.3%
Impact of US tax reform	-	445	-	-	445	13.5%
Adjustments in relation to business disposals	(8)	12	-	-	4	0.1%
Total	8	467	(3)	(3)	469	14.2%
Total actual tax charge (credit)	253	508	267	(122)	906	27.4%
Analysed into:						
Tax on operating profit based on longer-term investment returns	276	548	268	(121)	971	
Tax on non-operating profit	(23)	(40)	(1)	(1)	(65)	
Actual tax rate:						
Operating profit based on longer-term investment returns:						
Including non-recurring tax reconciling items	14%	25%	19%	14%	21%	
Excluding non-recurring tax reconciling items	13%	24%	20%	13%	20%	
Total profit	12%	67%	20%	14%	27%	

*

Other operations include restructuring costs.

B5

Earnings per share

Half year 2018		Non-controlling interests	Net of tax	Basic	Diluted
Before	Tax				

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		tax			and non-	earnings	earnings
		note B1.1	note B4		controlling interests	per share	per share
	Note	£m	£m	£m	£m	pence	pence
Based on operating profit based on longer-term investment returns		2,405	(429)	(1)	1,975	76.8p	76.7p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(113)	(24)	-	(137)	(5.3)p	(5.3)p
Amortisation of acquisition accounting adjustments		(22)	4	-	(18)	(0.7)p	(0.7)p
(Loss) attaching to disposal of businesses and corporate transactions		(570)	105	-	(465)	(18.1)p	(18.1)p
Based on profit for the period		1,700	(344)	(1)	1,355	52.7p	52.6p

Half year 2017

		Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share
	Note	note B1.1 £m	note B4 £m	£m	pence	pence
Based on operating profit based on longer-term investment returns		2,358	(563)	1,795	70.0p	69.9p
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		61	-	61	2.4p	2.4p

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		Full year 2017			Net of tax	Basic	Diluted
		Before tax	Tax	Non-controlling interests	and non-controlling interests	earnings per share	earnings per share
		note B1.1	note B4				
	Note	£m	£m	£m	£m	pence	pence
comprehensive income		1,814	(309)	1,505	58.7p	58.6p	
Based on profit for the period							
Based on operating profit based on longer-term investment returns		4,699	(971)	(1)	3,727	145.2p	145.1p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,563)	572	-	(991)	(38.6)p	(38.6)p
Amortisation of acquisition accounting adjustments		(63)	20	-	(43)	(1.7)p	(1.7)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income		61	-	-	61	2.4p	2.4p
Profit attaching to the disposal of businesses		162	(82)	-	80	3.1p	3.1p
Impact of US tax reform		-	(445)	-	(445)	(17.3)p	(17.3)p
Based on profit for the year		3,296	(906)	(1)	2,389	93.1p	93.0p

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 2018	Half year 2017	Full year 2017
Weighted average number of shares for calculation of:	(millions)	(millions)	(millions)

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Basic earnings per share	2,573	2,565	2,567
Diluted earnings per share	2,574	2,567	2,568

B6

Dividends

	Half year 2018		Half year 2017		Full year 2017	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim ordinary dividend	15.67p	406	14.50p	375	14.50p	375
Second interim ordinary dividend	-	-	-	-	32.50p	841
Total	15.67p	406	14.50p	375	47.00p	1,216
Dividends paid in reporting period:						
Current year first interim ordinary dividend	-	-	-	-	14.50p	373
Second interim ordinary dividend for prior year	32.50p	840	30.57p	786	30.57p	786
Total	32.50p	840	30.57p	786	45.07p	1,159

Dividend per share

The 2018 first interim dividend of 15.67 pence per ordinary share will be paid on 27 September 2018 in sterling to shareholders on the UK register and the Irish branch register on 24 August 2018 (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 7 August 2018. Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 4 October 2018. 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 4 October 2018 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 UK register and Irish branch register are eligible 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 2018 £m					30 Jun 2017 £m	31 Dec 2017 £m
Asia	US	UK and Europe	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	Group Total	Group Total
						Group Total

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By operating segment	Note	C2.1	C2.2	C2.3	note (v)				
Assets									
Goodwill	C5(a)	306	-	1,314	-	-	1,620	1,501	1,482
Deferred acquisition costs and other intangible assets	C5(b)	2,614	8,503	199	43	-	11,359	10,757	11,011
Property, plant and equipment	note (i)	123	237	588	3	-	951	727	789
Reinsurers' share of insurance contract liabilities	note (ii)	2,258	6,436	2,104	3	(1,181)	9,620	9,709	9,673
Deferred tax assets	C7	112	2,144	130	49	-	2,435	4,105	2,627
Current tax recoverable		23	298	255	115	(65)	626	700	613
Accrued investment income		611	460	1,471	32	-	2,574	2,887	2,676
Other debtors	note (iii)	2,429	242	3,580	1,722	(4,454)	3,519	3,417	2,963
Investment properties		5	5	17,595	-	-	17,605	15,218	16,497
Investment in joint ventures and associates accounted for using the equity method		867	-	687	-	-	1,554	1,293	1,416
Loans	C3.3	1,337	9,815	5,664	106	-	16,922	16,952	17,042
Equity securities and portfolio holdings in unit trusts		30,926	135,837	62,832	112	-	229,707	210,437	223,391
Debt securities	C3.2	42,256	36,115	79,744	2,190	-	160,305	170,793	171,374
Derivative assets		191	816	2,305	116	-	3,428	3,789	4,801
Other investments		-	901	5,158	-	-	6,059	5,566	5,622
Deposits		1,203	17	11,020	172	-	12,412	13,353	11,236
Assets held for sale*		-	-	12,024	-	-	12,024	33	38
Cash and cash equivalents		2,177	1,174	3,420	1,679	-	8,450	9,893	10,690
Total assets		87,438	203,000	210,090	6,342	(5,700)	501,170	481,130	493,941
Liabilities									
Total equity		5,741	5,100	8,046	(2,997)	-	15,890	15,450	16,094
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)									
Unallocated surplus of with-profits funds	C4.1(a)	66,821	185,150	154,655	37	(1,181)	405,482	398,980	411,243
Core structural borrowings of shareholder-financed operations	C6.1	-	189	-	6,178	-	6,367	6,614	6,280

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Operational borrowings attributable to shareholder-financed operations	C6.2(a)	17	262	130	1,209	-	1,618	2,096	1,791
Borrowings attributable to with-profits operations	C6.2(b)	32	-	3,557	-	-	3,589	3,336	3,716
Obligations under funding, securities lending and sale and repurchase agreements		-	5,612	1,516	-	-	7,128	6,408	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,550	-	5,781	27	-	9,358	8,577	8,889
Deferred tax liabilities	C7	1,174	1,653	1,602	14	-	4,443	5,683	4,715
Current tax liabilities		155	22	194	109	(65)	415	743	537
Accruals, deferred income and other liabilitiesnote (iv)		5,920	4,914	6,349	822	(4,454)	13,551	14,524	14,185
Provisions		175	19	684	42	-	920	759	1,123
Derivative liabilities		87	79	2,082	901	-	3,149	2,870	2,755
Liabilities held for sale		-	-	11,977	-	-	11,977	-	-
Total liabilities		81,697	197,900	202,044	9,339	(5,700)	485,280	465,680	477,847
Total equity and liabilities		87,438	203,000	210,090	6,342	(5,700)	501,170	481,130	493,941

*

Assets held for sale of £12,024 million includes £11,977 million in respect of the reinsured UK annuity business (see note D1).

Notes

(i)

£605 million (30 June 2017: £409 million; 31 December 2017: £492 million) of the property, plant and equipment of £951 million (30 June 2017: £727 million; 31 December 2017: £789 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 £167 million during the period (30 June 2017: £120 million; 31 December 2017: £134 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 and the reinsurance of part of the UK Shareholder-backed annuity portfolio as described in note D1.

(iii)

Within other debtors are premiums receivable of £595 million (30 June 2017: £432 million; 31 December 2017: £547 million) of which 89 per cent are due within one year. The remaining 11 per cent is due after one year.

(iv)

Within 'Accruals, deferred income and other liabilities' of £13,551 million (30 June 2017: £14,524 million; 31 December 2017: £14,185 million) is an amount of £8,435 million (30 June 2017: £8,575 million; 31 December 2017: £9,305 million) that is due within one year.

(v)

Unallocated to a segment includes central operations, Prudential Capital and Africa operations as per note B1.3.

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

	Note	2018 £m				2017 £m				
		With -profits business	Unit -linked assets and liabilities	Other business	Total	Asset- manage- ment	Elimina- tions	30 Jun Total	30 Jun* Total	31 Dec Total
Assets										
Goodwill	-	-	-	245	245	61	-	306	306	305
Deferred acquisition costs and other intangible assets	48	-	-	2,561	2,609	5	-	2,614	2,344	2,540
Property, plant and equipment	86	-	-	34	120	3	-	123	122	125
Reinsurers' share of insurance contract liabilities	79	-	-	2,179	2,258	-	-	2,258	1,680	1,960
Deferred tax assets	-	-	-	105	105	7	-	112	93	112
Current tax recoverable	-	-	4	19	23	-	-	23	30	58
Accrued investment income	266	57	57	256	579	32	-	611	597	595
Other debtors	1,599	232	232	551	2,382	76	(29)	2,429	2,640	2,675
Investment properties	-	-	-	5	5	-	-	5	5	5
Investment in joint ventures and associates accounted for using the equity method	-	-	-	723	723	144	-	867	849	912
Loans	C3.3	757	-	580	1,337	-	-	1,337	1,307	1,317
Equity securities and portfolio holdings in unit trusts	16,673	12,592	1,622	1,622	30,887	39	-	30,926	26,772	29,976
Debt securities	C3.2	24,923	3,771	13,522	42,216	40	-	42,256	39,061	40,982
Derivative assets	136	3	52	52	191	-	-	191	102	113

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Deposits		271	369	530	1,170	33	-	1,203	1,287	1,291
Cash and cash equivalents		722	524	820	2,066	111	-	2,177	1,942	1,934
Total assets		45,560	17,552	23,804	86,916	551	(29)	87,438	79,137	84,900
Total equity		-	-	5,327	5,327	414	-	5,741	5,563	5,926
Liabilities										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(b)	36,282	16,094	14,445	66,821	-	-	66,821	59,619	64,133
Unallocated surplus of with-profits funds	C4.1(b)	3,766	-	-	3,766	-	-	3,766	3,003	3,474
Operational borrowings attributable to shareholder-financed operations		-	10	7	17	-	-	17	20	50
Borrowings attributable to with-profits operations		32	-	-	32	-	-	32	20	10
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,042	1,273	235	3,550	-	-	3,550	3,541	3,631
Deferred tax liabilities		782	30	362	1,174	-	-	1,174	1,022	1,152
Current tax liabilities		54	-	89	143	12	-	155	175	122
Accruals, deferred income and other liabilities		2,526	137	3,211	5,874	75	(29)	5,920	5,859	6,069
Provisions		26	-	99	125	50	-	175	191	254
Derivative liabilities		50	8	29	87	-	-	87	124	79
Total liabilities		45,560	17,552	18,477	81,589	137	(29)	81,697	73,574	78,974
Total equity and liabilities		45,560	17,552	23,804	86,916	551	(29)	87,438	79,137	84,900

* The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

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

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		2018 £m			2017 £m				
	Note	Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	Total	Asset management	Eliminations	30 Jun Total	30 Jun* Total	31 Dec Total
Assets									
Goodwill	-	-	-	-	-	-	-	16	-
Deferred acquisition costs and other intangible assets	-	8,503	8,503	-	-	-	8,503	8,192	8,219
Property, plant and equipment	-	234	234	3	-	-	237	232	214
Reinsurers' share of insurance contract liabilities	-	6,436	6,436	-	-	-	6,436	6,740	6,424
Deferred tax assets	-	2,056	2,056	88	-	-	2,144	3,808	2,300
Current tax recoverable	-	292	292	6	-	-	298	354	298
Accrued investment income	-	438	438	22	-	-	460	569	492
Other debtors	-	236	236	76	(70)	-	242	266	248
Investment properties	-	5	5	-	-	-	5	6	5
Loans	C3.3	-	9,815	9,815	-	-	9,815	9,497	9,630
Equity securities and portfolio holdings in unit trusts		135,546	289	135,835	2	-	135,837	125,059	130,630
Debt securities	C3.2	-	36,115	36,115	-	-	36,115	38,029	35,378
Derivative assets	-	816	816	-	-	-	816	906	1,611
Other investments	-	898	898	3	-	-	901	936	848
Deposits	-	-	-	-	17	-	17	18	43
Cash and cash equivalents	-	836	836	338	-	-	1,174	1,470	1,658
Total assets		135,546	66,969	202,515	555	(70)	203,000	196,098	197,998
Total equity		-	4,896	4,896	204	-	5,100	5,213	5,248
Liabilities									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(c)	135,546	49,604	185,150	-	-	185,150	177,779	180,724
Core structural borrowings of shareholder-financed operations	-	-	189	189	-	-	189	192	184
Operational borrowings attributable to	-	-	262	262	-	-	262	453	508

shareholder-financed operations								
Obligations under funding, securities lending and sale and repurchase agreements	-	5,612	5,612	-	-	5,612	4,518	4,304
Deferred tax liabilities	-	1,652	1,652	1	-	1,653	2,983	1,845
Current tax liabilities	-	21	21	1	-	22	60	47
Accruals, deferred income and other liabilities	-	4,642	4,642	342	(70)	4,914	4,856	5,109
Provisions	-	12	12	7	-	19	1	24
Derivative liabilities	-	79	79	-	-	79	43	5
Total liabilities	135,546	62,073	197,619	351	(70)	197,900	190,885	192,750
Total equity and liabilities	135,546	66,969	202,515	555	(70)	203,000	196,098	197,998

* The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

C2.3 UK and Europe

	2018 £m					2017 £m				
	With-profits sub-funds	Other funds and subsidiaries	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Asset management	Eliminations	30 Jun Total	30 Jun* Total	31 Dec Total
By operating segment	Note	note (i)								
Assets										
Goodwill	161	-	-	161	1,153	-	1,314	1,179	1,177	
Deferred acquisition costs and other intangible assets	101	-	92	193	6	-	199	189	210	
Property, plant and equipment	519	-	33	552	36	-	588	370	447	
Reinsurers' share of insurance contract liabilities	1,213	126	765	2,104	-	-	2,104	2,560	2,521	
Deferred tax assets	65	-	44	109	21	-	130	152	157	

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Current tax recoverable		58	-	197	255	-	-	255	311	244
Accrued investment income		993	96	374	1,463	8	-	1,471	1,680	1,558
Other debtors		1,725	399	656	2,780	909	(109)	3,580	3,729	3,118
Investment properties		15,293	647	1,655	17,595	-	-	17,595	15,207	16,487
Investment in joint ventures and associates accounted for using the equity method		649	-	-	649	38	-	687	444	504
Loans	C3.3	3,943	-	1,721	5,664	-	-	5,664	5,784	5,986
Equity securities and portfolio holdings in unit trusts		47,590	15,072	15	62,677	155	-	62,832	58,509	62,670
Debt securities	C3.2	51,064	6,536	22,144	79,744	-	-	79,744	91,302	92,707
Derivative assets		1,844	1	460	2,305	-	-	2,305	2,676	2,954
Other investments		5,147	10	1	5,158	-	-	5,158	4,630	4,774
Deposits		8,853	1,330	837	11,020	-	-	11,020	11,843	9,540
Assets held for sale		47	-	11,977	12,024	-	-	12,024	33	38
Cash and cash equivalents		2,280	138	593	3,011	409	-	3,420	4,915	5,808
Total assets		141,545	24,355	41,564	207,464	2,735	(109)	210,090	205,513	210,900
Total equity		-	-	6,032	6,032	2,014	-	8,046	8,108	8,245
Liabilities										
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(d)	112,339	22,198	20,118	154,655	-	-	154,655	162,853	167,589
Unallocated surplus of	C4.1(d)	13,517	-	-	13,517	-	-	13,517	12,087	13,477

with-profits funds									
Operational borrowings attributable to shareholder-financed operations	-	4	126	130	-	-	130	199	148
Borrowings attributable to with-profits operations	3,557	-	-	3,557	-	-	3,557	3,316	3,706
Obligations under funding, securities lending and sale and repurchase agreements	1,193	-	323	1,516	-	-	1,516	1,890	1,358
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,998	1,697	86	5,781	-	-	5,781	5,036	5,243
Deferred tax liabilities	1,353	-	225	1,578	24	-	1,602	1,667	1,703
Current tax liabilities	21	48	80	149	45	-	194	490	377
Accruals, deferred income and other liabilities	4,549	403	1,047	5,999	459	(109)	6,349	7,565	6,609
Provisions	25	-	466	491	193	-	684	531	784
Derivative liabilities	993	5	1,084	2,082	-	-	2,082	1,771	1,661
Liabilities held for sale	-	-	11,977	11,977	-	-	11,977	-	-
Total liabilities	141,545	24,355	35,532	201,432	721	(109)	202,044	197,405	202,655
Total equity and liabilities	141,545	24,355	41,564	207,464	2,735	(109)	210,090	205,513	210,900

* The half year 2017 comparative results have been re-presented from those previously published to reflect the Group's current operating segments.

Notes

(i)

Includes the Scottish Amicable Insurance Fund which, at 30 June 2018, has total assets and liabilities of £5,310 million (30 June 2017: £5,943 million; 31 December 2017: £5,768 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 £10.2 billion (30 June 2017: £10.9 billion; 31 December 2017: £10.6 billion) of non-profits annuities liabilities.

C3

Assets and liabilities

C3.1

Group assets and liabilities – measurement

(a)

Determination of fair value

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

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

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

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

(b)

Fair value measurement hierarchy of Group assets and liabilities

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

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

Financial instruments at fair value

	30 Jun 2018 £m			
	Level 1	Level 2	Level 3	Total
Analysis of financial	Quoted prices (unadjusted)	Valuation based on	Valuation based on	

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investments, net of derivative liabilities by business type	in active markets	significant observable market inputs	significant unobservable market inputs	
With-profits				
Loans	-	-	1,848	1,848
Equity securities and portfolio holdings in unit trusts	59,025	4,748	490	64,263
Debt securities	29,680	45,952	355	75,987
Other investments (including derivative assets)	76	3,185	3,866	7,127
Derivative liabilities	(40)	(1,003)	-	(1,043)
Total financial investments, net of derivative liabilities	88,741	52,882	6,559	148,182
Percentage of total	60%	36%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	162,698	494	18	163,210
Debt securities	5,162	5,145	-	10,307
Other investments (including derivative assets)	3	4	7	14
Derivative liabilities	(9)	(4)	-	(13)
Total financial investments, net of derivative liabilities	167,854	5,639	25	173,518
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	-	-	2,935	2,935
Equity securities and portfolio holdings in unit trusts	2,215	9	10	2,234
Debt securities	17,918	55,795	298	74,011
Other investments (including derivative assets)	34	1,403	909	2,346
Derivative liabilities	(1)	(1,692)	(400)	(2,093)
	20,166	55,515	3,752	79,433

Total financial investments, net of derivative liabilities				
Percentage of total	25%	70%	5%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	-	4,783	4,783
Equity securities and portfolio holdings in unit trusts	223,938	5,251	518	229,707
Debt securities	52,760	106,892	653	160,305
Other investments (including derivative assets)	113	4,592	4,782	9,487
Derivative liabilities	(50)	(2,699)	(400)	(3,149)
Total financial investments, net of derivative liabilities	276,761	114,036	10,336	401,133
Investment contract liabilities without discretionary participation features held at fair value				
Borrowings attributable to with-profits operations	-	(16,713)	-	(16,713)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,184)	(3,407)	(767)	(9,358)
Other financial liabilities held at fair value	-	-	(3,159)	(3,159)
Total financial instruments at fair value	271,577	93,916	4,664	370,157
Percentage of total	74%	25%	1%	100%
	30 Jun 2017 £m			
	Level 1	Level 2	Level 3	Total

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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	
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)
Total financial investments, net of derivative liabilities	79,252	50,985	6,092	136,329
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)	-	1,501	996	2,497
	(26)	(1,551)	(460)	(2,037)

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Derivative liabilities				
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
Other investments (including derivative assets)	77	4,814	4,464	9,355
Derivative liabilities	(107)	(2,303)	(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%

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	31 Dec 2017 £m			
	Level 1	Level 2	Level 3	Total
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	
With-profits				
Loans	-	-	2,023	2,023
Equity securities and portfolio holdings in unit trusts	57,347	4,470	351	62,168
Debt securities	29,143	45,602	348	75,093
Other investments (including derivative assets)	68	3,638	3,540	7,246
Derivative liabilities	(68)	(615)	-	(683)
Total financial investments, net of derivative liabilities	86,490	53,095	6,262	145,847
Percentage of total	60%	36%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	158,631	457	10	159,098
Debt securities	4,993	5,226	-	10,219
Other investments (including derivative assets)	12	4	8	24
Derivative liabilities	-	(1)	-	(1)
Total financial investments, net of derivative liabilities	163,636	5,686	18	169,340
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	-	-	2,814	2,814
Equity securities and portfolio holdings in unit trusts	2,105	10	10	2,125
Debt securities	21,443	64,313	306	86,062
Other investments (including	7	2,270	876	3,153

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derivative assets)				
Derivative liabilities	-	(1,559)	(512)	(2,071)
Total financial investments, net of derivative liabilities	23,555	65,034	3,494	92,083
Percentage of total	25%	71%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	-	-	4,837	4,837
Equity securities and portfolio holdings in unit trusts	218,083	4,937	371	223,391
Debt securities	55,579	115,141	654	171,374
Other investments (including derivative assets)	87	5,912	4,424	10,423
Derivative liabilities	(68)	(2,175)	(512)	(2,755)
Total financial investments, net of derivative liabilities	273,681	123,815	9,774	407,270
Investment contract liabilities without discretionary participation features held at fair value				
Borrowings attributable to with-profits operations	-	-	(1,887)	(1,887)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(4,836)	(3,640)	(413)	(8,889)
Other financial liabilities held at fair value	-	-	(3,031)	(3,031)
Total financial instruments at fair value	268,845	102,778	4,443	376,066
Percentage of total	72%	27%	1%	100%

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All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £35,860 million (30 June 2017: £37,936 million; 31 December 2017: £35,293 million) of debt securities classified as available-for-sale.

Assets and liabilities at amortised cost and their fair value

The table below shows the assets and liabilities carried at amortised cost on the statement of financial position and their fair value. The assets and liabilities that are carried at amortised cost but where the carrying value approximates the fair value, are excluded from the analysis below.

	30 Jun 2018 £m	
	Total carrying value	Total fair value
Assets		
Loans	12,139	12,710
Liabilities		
Investment contract liabilities without discretionary participation features	(3,001)	(3,003)
Core structural borrowings of shareholder-financed operations	(6,367)	(6,518)
Operational borrowings attributable to shareholder-financed operations	(1,618)	(1,618)
Borrowings attributable to the with-profits funds	(1,843)	(1,768)
Obligations under funding, securities lending and sale and repurchase agreements	(7,128)	(7,126)
	30 Jun 2017 £m	
	Total carrying value	Total fair value
Assets		
Loans	12,142	13,017
Liabilities		
Investment contract liabilities without discretionary participation features	(3,145)	(3,164)
Core structural borrowings of shareholder-financed operations	(6,614)	(7,292)
Operational borrowings attributable to shareholder-financed operations	(2,096)	(2,096)
Borrowings attributable to the with-profits funds	(1,520)	(1,528)
Obligations under funding, securities lending and sale and repurchase agreements	(6,408)	(6,464)
	31 Dec 2017 £m	
	Total carrying value	Total fair value
Assets		
Loans	12,205	12,939
Liabilities		
Investment contract liabilities without discretionary participation features	(2,997)	(3,032)
Core structural borrowings of shareholder-financed operations	(6,280)	(7,032)
Operational borrowings attributable to shareholder-financed operations	(1,791)	(1,791)
Borrowings attributable to the with-profits funds	(1,829)	(1,832)
Obligations under funding, securities lending and sale and repurchase agreements	(5,662)	(5,828)

(c)

Valuation approach for level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades. For further detail on the valuation approach for level 2 fair valued assets and liabilities please refer to note C3.1 of the Group's consolidated financial statements for the year ended 31 December 2017.

Of the total level 2 debt securities of £106,892 million at 30 June 2018 (30 June 2017: £115,321 million; 31 December 2017: £115,141 million), £13,871 million are valued internally (30 June 2017: £13,596 million; 31 December 2017: £13,910 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d)

Fair value measurements for level 3 fair valued assets and liabilities

Reconciliation of movements in level 3 assets and liabilities measured at fair value

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2018 to that presented at 30 June 2018.

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.

Half year 2018 £m	At 1 Jan 2018	Total gains (losses) in income statement	Total gains (losses) recorded in other compre- hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2018
Loans	4,837	59	65	2	-	(223)	43	-	-	4,783
Equity securities and portfolio holdings in unit trusts	371	43	(7)	112	(1)	-	-	-	-	518
Debt securities	654	(10)	-	55	(46)	-	-	-	-	653
Other investments (including derivative assets)	4,424	188	46	550	(426)	-	-	-	-	4,782
Derivative liabilities	(512)	57	-	-	-	-	-	-	55	(400)

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Total financial investments, net of derivative liabilities	9,774	337	104	719	(473)	(223)	43	-	55	10,336
Borrowings attributable to with-profits operations	(1,887)	(2)	-	-	-	143	-	-	-	(1,746)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(413)	38	-	-	-	22*	(414)	-	-	(767)
Other financial liabilities	(3,031)	(84)	(68)	-	-	103	(79)	-	-	(3,159)
Total financial instruments at fair value	4,443	289	36	719	(473)	45	(450)	-	55	4,664

Half year 2017	£m	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 with-profits operations	-	2	-	-	-	-	(1,818)	-	-	-	(1,816)
Net asset value attributable to unit	(883)	(357)	-	-	(167)	1,017*	(47)	-	-	-	(437)

holders of
consolidated
unit trusts
and similar
funds

Other financial liabilities	(2,851)	14	250	-	-	252	(311)	(385)	-	(3,031)
Total financial instruments at fair value	4,593	(402)	(134)	3,245	(1,715)	1,326	(2,298)	(80)	(92)	4,443

*

Includes distributions to third-party investors by subsidiaries held by the UK with-profits funds for investment purposes. These distributions vary period to period depending on the maturity of the subsidiaries and the gains realised by those entities in the period.

Of the total net gains and losses in the income statement of £289 million (30 June 2017: £(230) million; 31 December 2017: £(402) million), £210 million (30 June 2017: £(234) million; 31 December 2017: £(139) million) relates to net unrealised gains and losses of financial instruments still held at the end of the period, which can be analysed as follows:

	2018 £m		2017 £m	
	30 Jun		30 Jun	31 Dec
Loans	(23)		-	20
Equity securities	43		21	(12)
Debt securities	(10)		2	(5)
Other investments	109		42	(22)
Derivative liabilities	57		56	4
Borrowings attributable to with-profit operations	(2)		-	(13)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	38		2	(123)
Other financial liabilities	(2)		(357)	12
Total	210		(234)	(139)

Valuation approach for level 3 fair valued assets and liabilities

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. For further detail on the valuation approach for level 3 fair valued assets and liabilities, please refer to note C3.1 of the Group's consolidated financial statements for the year ended 31 December 2017.

At 30 June 2018, the Group held £4,664 million (30 June 2017: £4,526 million; 31 December 2017: £4,443 million) of net financial instruments at fair value within level 3. This represents 1 per cent (30 June 2017: 1 per cent; 31 December 2017: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

The net financial instruments at fair value within level 3 at 30 June 2018 include £1,808 million of loans and a corresponding £1,746 million of borrowings held by a subsidiary of the Group's UK with-profits fund, attaching to the acquisition of a portfolio of buy-to-let mortgages and other loans financed largely by external third-party

(non-recourse) borrowings (see note C3.3(c) for further details). The Group's exposure is limited to the investment held by the UK with-profits fund rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

Included within these amounts are loans of £2,638 million at 30 June 2018 (30 June 2017: £2,594 million; 31 December 2017: £2,512 million), measured as the loan outstanding balance, plus accrued investment income, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,793 million at 30 June 2018 (30 June 2017: £2,766 million; 31 December 2017: £2,664 million) is also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(155) million (30 June 2017: £(172) million; 31 December 2017: £(152) million), the level 3 fair valued financial assets net of financial liabilities were £4,819 million (30 June 2017: £4,698 million; 31 December 2017: £4,595 million). Of this amount, a net liability of £(312) million (30 June 2017: net liability of £(218) million; 31 December 2017: net asset of £117 million) is internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (30 June 2017: 0.1 per cent; 31 December 2017: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability are:

(a)

Debt securities of £494 million (30 June 2017: £446 million; 31 December 2017: £500 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).

(b)

Private equity and venture investments in both debt and equity securities of £255 million (30 June 2017: £176 million; 31 December 2017: £217 million) which are valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association Valuation Guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.

(c)

Equity release mortgage loan investments of £297 million (30 June 2017: £309 million classified as level 2; 31 December 2017: £302 million) which are valued internally using the discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values.

(d)

Liabilities of £(735) million (30 June 2017: £(437) million; 31 December 2017: £(403) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.

(e)

Derivative liabilities of £(400) million (30 June 2017: £(460) million; 31 December 2017: £(512) million) which are valued internally using the discounted cash flow method in line with standard market practices but are subject to independent assessment against external counterparties' valuations.

(f)

Other sundry individual financial investments of £74 million (30 June 2017: £57 million; 31 December 2017: £81 million).

Of the internally valued net liability referred to above of £(312) million (30 June 2017: net liability of £(218) million; 31 December 2017: net asset of £117 million):

(a)

A net liability of £(214) million (30 June 2017: net liability of £(97) million; 31 December 2017: net asset of £67 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.

(b)

A net liability of £(98) million (30 June 2017: net liability of £(121) million; 31 December 2017: net liability of £(184) million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally decreased by 10 per cent, the change in valuation would be £10 million (30 June 2017: £12 million; 31 December 2017: £18 million), which would increase (reduce) shareholders' equity by this amount before tax. All this amount passes through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit.

(e)

Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer. Transfers are deemed to have occurred when there is a material change in the observed valuation inputs or a change in the level of trading activities of the securities.

During half year 2018, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £621 million and transfers from level 2 to level 1 of £312 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities.

In addition, the transfers out of level 3 in half year 2018 were £55 million. These transfers were primarily between levels 3 and 2 for derivative liabilities. There were no transfers into level 3 in the period.

(f)

Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions. In addition, the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

C3.2

Debt securities

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

With the exception of certain debt securities for US insurance operations classified as 'available-for-sale' under IAS 39 as disclosed in notes C3.2 (b) to (d) below, the Group's debt securities are carried at fair value through profit or loss.

(a)

Credit rating

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Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard and Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. For the US NAIC ratings have also been used where relevant. In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-. Debt securities with no external credit rating are classified as 'other'.

	30 Jun 2018 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	2,496	11,425	3,983	3,351	1,768	1,900	24,923
Unit-linked	726	147	489	1,326	441	642	3,771
Non-linked shareholder-backed	948	3,138	3,234	3,063	2,040	1,099	13,522
Asset Management	12	-	28	-	-	-	40
US							
Non-linked shareholder-backed	442	6,338	9,439	13,148	1,035	5,713	36,115
UK and Europe							
With-profits	7,091	8,723	11,606	13,544	2,847	7,253	51,064
Unit-linked	358	2,099	1,694	1,448	718	219	6,536
Non-linked shareholder-backed	3,273	6,296	5,138	1,496	223	5,718	22,144
Other operations	673	1,237	177	39	45	19	2,190
Total debt securities	16,019	39,403	35,788	37,415	9,117	22,563	160,305

	30 Jun 2017 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	3,168	9,722	3,540	3,201	1,789	1,978	23,398
Unit-linked	501	129	526	1,502	323	461	3,442
Non-linked shareholder-backed	1,138	2,758	3,035	2,699	1,645	946	12,221
US							
Non-linked shareholder-backed	455	6,739	10,318	13,526	1,046	5,945	38,029
UK and Europe							
With-profits	5,965	9,872	10,827	12,577	3,481	6,443	49,165
Unit-linked	597	2,871	1,131	1,856	176	112	6,743
Non-linked shareholder-backed	4,481	10,313	10,396	4,036	388	5,780	35,394
Other operations	819	1,275	192	95	14	6	2,401
Total debt securities	17,124	43,679	39,965	39,492	8,862	21,671	170,793

	31 Dec 2017 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	2,504	10,641	3,846	3,234	1,810	2,397	24,432
Unit-linked	528	103	510	1,429	372	565	3,507
Non-linked shareholder-backed	990	2,925	3,226	2,970	1,879	1,053	13,043
US							
Non-linked shareholder-backed	368	6,352	9,578	12,311	1,000	5,769	35,378
UK and Europe							
With-profits	6,492	9,378	11,666	12,856	2,877	7,392	50,661

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Unit-linked	670	2,732	1,308	1,793	91	117	6,711
Non-linked shareholder-backed	5,118	11,005	9,625	3,267	258	6,062	35,335
Other operations	742	1,264	182	67	36	16	2,307
Total debt securities	17,412	44,400	39,941	37,927	8,323	23,371	171,374

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

		2018 £m		2017 £m		
		30 Jun	30 Jun	31 Dec		
Asia						
Non-linked shareholder-backed						
Internally rated						
Government bonds		23	40	25		
Corporate bonds – rated as investment grade by local external ratings agencies		1,006	821	959		
Other		70	85	69		
Total Asia non-linked shareholder-backed		1,099	946	1,053		
		2018 £m		2017 £m		
US	Mortgage-backed securities	Other securities	30 Jun Total	30 Jun Total	31 Dec Total	
Implicit ratings of other US debt securities based on NAIC* valuations (see below)						
NAIC 1	1,802	2,101	3,903	3,944	3,918	
NAIC 2	14	1,767	1,781	1,903	1,794	
NAIC 3-6	3	26	29	98	57	

Total US** 1,819 3,894 5,713 5,945 5,769

*

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

**Mortgage-backed securities totalling £1,545 million at 30 June 2018 have credit ratings issued by Standard & Poor's of BBB- or above and hence are designated as investment grade. Other securities totalling £3,868 million at 30 June 2018 with NAIC ratings 1 or 2 are also designated as investment grade.

	2018 £m		2017 £m	
	30 Jun	30 Jun	31 Dec	
UK and Europe				
Internal ratings or unrated				
AAA to A-	7,828	7,494	7,994	
BBB to B-	2,866	3,180	3,141	
Below B- or unrated	2,496	1,661	2,436	
Total UK and Europe	13,190	12,335	13,571	

(b)

Additional analysis of US insurance operations debt securities

	2018 £m		2017 £m	
	30 Jun	30 Jun	31 Dec	
Corporate and government security and commercial loans:				
Government	4,737	4,884	4,835	
Publicly traded and SEC Rule 144A securities*	23,346	24,971	22,849	
Non-SEC Rule 144A securities	4,659	4,543	4,468	
Asset backed securities (see note (e))	3,373	3,631	3,226	
Total US debt securities**	36,115	38,029	35,378	

*

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

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

	2018 £m		2017 £m	
	30 Jun	30 Jun	31 Dec	
Available-for-sale	35,860	37,936	35,293	
Fair value through profit and loss	255	93	85	
	36,115	38,029	35,378	

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

(c)

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

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The movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £1,205 million to a net unrealised loss of £247 million as analysed in the table below.

	30 Jun 2018 £m	Foreign exchange translation** Reflected as part of movement in other comprehensive income	Changes in unrealised appreciation	31 Dec 2017 £m
Assets fair valued at below book value				
Book value*	23,159			6,325
Unrealised gain (loss)	(762)	(30)	(626)	(106)
Fair value (as included in statement of financial position)	22,397			6,219
Assets fair valued at or above book value				
Book value*	12,948			27,763
Unrealised gain (loss)	515	(1)	(795)	1,311
Fair value (as included in statement of financial position)	13,463			29,074
Total				
Book value*	36,107			34,088
Net unrealised gain (loss)	(247)	(31)	(1,421)	1,205
Fair value (as included in the footnote above in the overview table and the statement of financial position)	35,860			35,293

*

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

**Translated at the average rate of US\$1.38: £1.00.

(d)