

PRUDENTIAL PLC
Form 6-K
March 09, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

For the month of March, 2016

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 Unaudited Financial Information
Prudential plc 2015 results
International Financial Reporting Standards (IFRS) basis results

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2015 £m	2014 £m
Gross premiums earned		36,663	32,832
Outward reinsurance premiums		(1,157)	(799)
Earned premiums, net of reinsurance		35,506	32,033
Investment return		3,304	25,787
Other income		2,495	2,306
Total revenue, net of reinsurance		41,305	60,126
Benefits and claims		(30,547)	(50,736)
Outward reinsurers' share of benefit and claims		1,389	631
Movement in unallocated surplus of with-profits funds		(498)	(64)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(29,656)	(50,169)
Acquisition costs and other expenditure	B3	(8,208)	(6,752)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(312)	(341)
Disposal of Japan life business:			
Cumulative exchange loss recycled from other comprehensive income	D1	(46)	-
Remeasurement adjustments	D1	-	(13)
Total charges, net of reinsurance		(38,222)	(57,275)
Share of profits from joint ventures and associates, net of related tax		238	303
Profit before tax (being tax attributable to shareholders' and policyholders' returns)*		3,321	3,154
Less tax charge attributable to policyholders' returns		(173)	(540)
Profit before tax attributable to shareholders	B1.1	3,148	2,614
Total tax charge attributable to policyholders and shareholders	B5	(742)	(938)
Adjustment to remove tax charge attributable to policyholders' returns		173	540
Tax charge attributable to shareholders' returns	B5	(569)	(398)
Profit for the year attributable to equity holders of the Company		2,579	2,216
Earnings per share (in pence)		2015	2014
Based on profit attributable to the equity holders of the Company:	B6		
Basic		101.0p	86.9p
Diluted		100.9p	86.8p
Dividends per share (in pence)		2015	2014
Dividends relating to reporting year:	B7		

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Interim dividend		12.31p	11.19p
Second interim dividend / Final dividend		26.47p	25.74p
Special dividend		10.00p	
Total		48.78p	36.93p
Dividends declared and paid in reporting year:	B7		
Current year interim dividend		12.31p	11.19p
Final dividend for prior year		25.74p	23.84p
Total		38.05p	35.03p

*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 (which is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2015 £m	2014 £m
Profit for the year		2,579	2,216
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		68	215
Cumulative exchange loss of Japan life business recycled through profit or loss		46	-
Related tax		4	5
		118	220
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding (losses) gains arising during the year		(1,256)	1,039
Less: net gains included in the income statement on disposal and impairment		(49)	(83)
Total	C3.3	(1,305)	956
Related change in amortisation of deferred acquisition costs	C5.1(b)	337	(87)
Related tax		339	(304)
		(629)	565
Total		(511)	785

Items that will not be reclassified to profit or loss

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Gross	27	(12)
Related tax	(5)	2
	22	(10)
Other comprehensive (loss) income for the year, net of related tax	(489)	775
Total comprehensive income for the year attributable to the equity holders of the Company	2,090	2,991

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Reserve movements in respect
of share-based paymentsShare capital and share
premium

New share capital subscribed	C10	-	7	-	-	-	7	-	7
------------------------------	-----	---	---	---	---	---	---	---	---

Treasury shares

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

		-	-	(38)	-	-	(38)	-	(38)
--	--	---	---	------	---	---	------	---	------

Movement in Prudential plc
shares purchased by unit trusts

consolidated under IFRS		-	-	20	-	-	20	-	20
-------------------------	--	---	---	----	---	---	----	---	----

Net increase in equity		-	7	1,648	118	(629)	1,144	-	1,144
------------------------	--	---	---	-------	-----	-------	-------	---	-------

At beginning of year		128	1,908	8,788	31	956	11,811	1	11,812
----------------------	--	-----	-------	-------	----	-----	--------	---	--------

At end of year		128	1,915	10,436	149	327	12,955	1	12,956
----------------	--	-----	-------	--------	-----	-----	--------	---	--------

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014 £m

	Note	Share capital note C10	Share premium note C10	Retained earnings	Translation reserve	Available -for-sale securities reserves	Shareholders' equity	Non- controlling interests	Total equity
Reserves									
Profit for the year		-	-	2,216	-	-	2,216	-	2,216
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		-	-	-	220	-	220	-	220
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		-	-	-	-	565	565	-	565
		-	-	(10)	-	-	(10)	-	(10)

Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax								
Total other comprehensive (loss) income		-	-	(10)	220	565	775	- 775
Total comprehensive income for the year		-	-	2,206	220	565	2,991	- 2,991
Dividends	B7	-	-	(895)	-	-	(895)	- (895)
Reserve movements in respect of share-based payments		-	-	106	-	-	106	- 106
Share capital and share premium								
New share capital subscribed	C10	-	13	-	-	-	13	- 13
Treasury shares								
Movement in own shares in respect of share-based payment plans		-	-	(48)	-	-	(48)	- (48)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		-	-	(6)	-	-	(6)	- (6)
Net increase in equity		-	13	1,363	220	565	2,161	- 2,161
At beginning of year		128	1,895	7,425	(189)	391	9,650	1 9,651
At end of year		128	1,908	8,788	31	956	11,811	1 11,812

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2015 £m	2014 £m
Assets			
Intangible assets attributable to shareholders:			
Goodwill	C5.1(a)	1,463	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	8,422	7,261
Total		9,885	8,724
Intangible assets attributable to with-profits funds:			
Goodwill in respect of acquired subsidiaries for venture fund and other investment purposes		185	186

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Deferred acquisition costs and other intangible assets		50	61
Total		235	247
Total intangible assets		10,120	8,971
Other non-investment and non-cash assets:			
Property, plant and equipment		1,197	978
Reinsurers' share of insurance contract liabilities		7,903	7,167
Deferred tax assets	C8	2,819	2,765
Current tax recoverable		477	117
Accrued investment income		2,751	2,667
Other debtors		1,955	1,852
Total		17,102	15,546
Investments of long-term business and other operations:			
Investment properties		13,422	12,764
Investment in joint ventures and associates accounted for using the equity method		1,034	1,017
Financial investments:*			
Loans	C3.4	12,958	12,841
Equity securities and portfolio holdings in unit trusts		157,453	144,862
Debt securities	C3.3	147,671	145,251
Other investments		7,353	7,623
Deposits		12,088	13,096
Total		351,979	337,454
Assets held for sale	D1	2	824
Cash and cash equivalents		7,782	6,409
Total assets	C1,C3.1	386,985	369,204

* Included within financial investments are £5,995 million (2014: £4,578 million) of lent securities.

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Note	2015 £m	2014 £m
Equity and liabilities			
Equity			
Shareholders' equity		12,955	11,811
Non-controlling interests		1	1
Total equity		12,956	11,812
Liabilities			
Policyholder liabilities and unallocated surplus of with-profits funds:			
Insurance contract liabilities		260,753	250,038
Investment contract liabilities with discretionary participation features		42,959	39,277
Investment contract liabilities without discretionary participation features		18,806	20,224
Unallocated surplus of with-profits funds		13,096	12,450

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Total	C4	335,614	321,989
Core structural borrowings of shareholder-financed operations:			
Subordinated debt		4,018	3,320
Other		993	984
Total	C6.1	5,011	4,304
Other borrowings:			
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	1,960	2,263
Borrowings attributable to with-profits operations	C6.2(b)	1,332	1,093
Other non-insurance liabilities:			
Obligations under funding, securities lending and sale and repurchase agreements		3,765	2,347
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		7,873	7,357
Deferred tax liabilities	C8	4,010	4,291
Current tax liabilities	C8	325	617
Accruals and deferred income		952	947
Other creditors		4,876	4,262
Provisions		604	724
Derivative liabilities		3,119	2,323
Other liabilities		4,588	4,105
Total		30,112	26,973
Liabilities held for sale		-	770
Total liabilities	C1,C3.1	374,029	357,392
Total equity and liabilities		386,985	369,204

International Financial Reporting Standards (IFRS) Basis Results

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i)		3,321	3,154
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(6,814)	(30,746)
Other non-investment and non-cash assets		(1,063)	(1,521)
Policyholder liabilities (including unallocated surplus)		6,067	27,292
Other liabilities (including operational borrowings)		1,761	3,797
Interest income and expense and dividend income included in result before tax		(8,726)	(8,315)
Other non-cash itemsnote (ii)		234	174
Operating cash items:			
Interest receipts		7,316	7,155
Dividend receipts		1,777	1,559
Tax paid		(1,340)	(721)

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Net cash flows from operating activities		2,533	1,828
Cash flows from investing activities			
Purchases of property, plant and equipment		(256)	(172)
Proceeds from disposal of property, plant and equipment		30	10
Acquisition of subsidiaries and intangibles		(286)	(535)
Sale of businesses		43	152
Net cash flows from investing activities		(469)	(545)
Cash flows from financing activities			
Structural borrowings of the Group:			
Shareholder-financed operations:note (iii)	C6.1		
Issue of subordinated debt, net of costs		590	-
Redemption of subordinated debt		-	(445)
Interest paid		(288)	(330)
With-profits operations:note (iv)	C6.2		
Interest paid		(9)	(9)
Equity capital:			
Issues of ordinary share capital		7	13
Dividends paid		(974)	(895)
Net cash flows from financing activities		(674)	(1,666)
Net increase (decrease) in cash and cash equivalents		1,390	(383)
Cash and cash equivalents at beginning of year		6,409	6,785
Effect of exchange rate changes on cash and cash equivalents		(17)	7
Cash and cash equivalents at end of year		7,782	6,409

Notes

- (i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.
- (ii) Other non-cash items consist of the adjustment of non-cash items to profit before tax.
- (iii) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.
- (iv) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

International Financial Reporting Standards (IFRS) Basis Results

NOTES

A

BACKGROUND

A1

Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS may differ from IFRS issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 31 December 2015, there were no unendorsed standards effective for the two years ended 31 December 2015 affecting the consolidated financial information 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.

Except for the adoption of the new and amended accounting standards for Group IFRS reporting as described in note A2, 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 2014.

Exchange rates

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

	Closing rate at 31 Dec 2015	Average rate for 2015	Closing rate at 31 Dec 2014	Average rate for 2014
Local currency: £				
Hong Kong	11.42	11.85	12.09	12.78
Indonesia	20,317.71	20,476.93	19,311.31	19,538.56
Malaysia	6.33	5.97	5.45	5.39
Singapore	2.09	2.10	2.07	2.09
China	9.57	9.61	9.67	10.15
India	97.51	98.08	98.42	100.53
Vietnam	33,140.64	33,509.21	33,348.46	34,924.62
Thailand	53.04	52.38	51.30	53.51
US	1.47	1.53	1.56	1.65

Certain notes to the financial statements present 2014 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014 but is derived from those accounts. The auditors have reported on the 2015 statutory accounts. Statutory accounts for 2014 have been delivered to the registrar of companies, and those for 2015 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

A2 Adoption of new accounting pronouncements in 2015

The Group has adopted the Annual improvements to the IFRS's 2011-2013 cycle which were effective in 2015

Except for a change to the presentation of the Prudential Capital business as a separate reporting segment, as described in note B1.3, consideration of these improvements has had no impact on the financial statements of the Group.

B EARNINGS PERFORMANCE

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

2014 £m %

Edgar Filing: PRUDENTIAL PLC - Form 6-K

		2015			2015	2015
		£m			vs	vs
	Note	AER	CER	2014	2014	
		note	note	AER	CER	
		(vii)	(vii)	note	note	
				(vii)	(vii)	
Asia operations						
Asia insurance operations		1,209	1,050	1,040	15%	16%
Eastspring Investments		115	90	91	28%	26%
Total Asia operations		1,324	1,140	1,131	16%	17%
US operations						
Jackson (US insurance operations)		1,691	1,431	1,543	18%	10%
Broker-dealer and asset management		11	12	13	(8)%	(15)%
Total US operations		1,702	1,443	1,556	18%	9%
UK operations						
UK insurance operations:	B4(b)					
Long-term business*		1,167	729	729	60%	60%
General insurance commission note (i)		28	24	24	17%	17%
Total UK insurance operations		1,195	753	753	59%	59%
M&G	B2	442	446	446	(1)%	(1)%
Prudential Capital		19	42	42	(55)%	(55)%
Total UK operations		1,656	1,241	1,241	33%	33%
Total segment profit		4,682	3,824	3,928	22%	19%
Other income and expenditure						
Investment return and other income		14	15	15	(7)%	(7)%
Interest payable on core structural borrowings		(312)	(341)	(341)	9%	9%
Corporate expenditure note (ii)		(319)	(293)	(293)	(9)%	(9)%
Total		(617)	(619)	(619)	- %	- %
Solvency II implementation costs		(43)	(28)	(28)	(54)%	(54)%
Restructuring costs note (iii)		(15)	(14)	(14)	(7)%	(7)%
Results of the sold PruHealth and PruProtect businesses*		-	23	23	n/a	n/a
Operating profit based on longer-term investment returns		4,007	3,186	3,290	26%	22%
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(737)	(574)	(650)	(28)%	(13)%
Amortisation of acquisition accounting adjustments note (iv)		(76)	(79)	(85)	4%	11%
Gain on sale of PruHealth and PruProtect businesses note (v)		-	86	86	n/a	n/a
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income		(46)	-	-	n/a	n/a
Costs of domestication of Hong Kong branch note (vi)		-	(5)	(5)	n/a	n/a
Profit before tax attributable to shareholders		3,148	2,614	2,636	20%	19%
		2015	2014		%	
			AER	CER	2015	2015
					vs	vs

Edgar Filing: PRUDENTIAL PLC - Form 6-K

		note	note	2014 AER	2014 CER
Basic earnings per share (in pence)	B6	(vii)	(vii)	(vii)	(vii)
Based on operating profit based on longer-term investment returns		125.8p	96.6p	99.5p	30%
Based on profit for the year		101.0p	86.9p	87.9p	16%

*In order to show the UK long-term business on a comparable basis, the 2014 comparative results exclude the contribution from the sold PruHealth and PruProtect businesses.

Notes

- (i) The Group's UK insurance operations transferred its general insurance business to Churchill in 2002. General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products as part of this arrangement, which terminates at the end of 2016.
- (ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.
- (iii) Restructuring costs are incurred in the UK and represent one-off business development expenses.
- (iv) Amortisation of acquisition accounting adjustments principally relate to the acquired REALIC business of Jackson.
- (v) In November 2014, PAC completed the sale of its 25 per cent equity stake in the PruHealth and PruProtect businesses to Discovery Group Europe Limited.
- (vi) On 1 January 2014, the Hong Kong branch of the Prudential Assurance Company Limited was transferred to separate subsidiaries established in Hong Kong.
- (vii) For definitions of AER and CER refer to note A1.

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

		2015 £m	2014 £m
Insurance operations:			
	Asia note (i)	(119)	178
	US note (ii)	(424)	(1,103)
	UK note (iii)	(120)	464
Other operations	note (iv)	(74)	(113)
Total		(737)	(574)

Notes

- (i) Asia insurance operations
In Asia, the negative short-term fluctuations of £(119) million (2014: positive £178 million) primarily reflect net unrealised movements on bond holdings following rises in bond yields across the region during the year.

- (ii) US insurance operations
The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £93 million as shown in note C5.1(b) (2014: £653 million) and comprise amounts in respect of the following items:

		2015 £m	2014 £m
Net equity hedge result	note (a)	(504)	(1,574)
Other than equity-related derivatives	note (b)	29	391
Debt securities	note (c)	1	47
Equity-type investments: actual less longer-term return		19	16
Other items		31	17
Total		(424)	(1,103)

Notes

(a) Net equity hedge result

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

The result comprises the net effect of:

- The accounting value movements on the variable and fixed index annuity guarantee liabilities;
- Adjustments in respect of fee assessments and claim payments;
- Fair value movements on free standing equity derivatives; and
- Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins,.

Movements in the accounting values of the variable annuity guarantee liabilities include those for:

The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal-Benefit (GMWB) guarantees which are valued under the US GAAP insurance measurement basis applied for IFRS in a way that is substantially less sensitive to the effect of equity market and interest rate changes. These represent the majority of the guarantees offered by Jackson; and

The 'not for life' portion of GMWB embedded derivative liabilities which are required to be fair valued. Fair value-movements on these liabilities include the effects of changes to levels of equity markets, implied volatility and interest rates.

The free-standing equity derivatives are held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options.

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' GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

The direct Guaranteed Minimum Income Benefit (GMIB) liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled, it is deemed a derivative under IAS 39 which requires fair valuation.

The fluctuations for this item therefore include significant accounting mismatches caused by:

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

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

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

(c) Short-term fluctuations related to debt securities

	2015 £m	2014 £m
Short-term fluctuations relating to debt securities		
Credits (charges) in the year:		
Losses on sales of impaired and deteriorating bonds	(54)	(5)
Bond write downs	(37)	(4)
Recoveries / reversals	18	19
Total (charges) credits in the year	(73)	10
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	83	78
	10	88
Interest-related realised gains:		
Arising in the year	102	63
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(108)	(87)
	(6)	(24)
Related amortisation of deferred acquisition costs	(3)	(17)
Total short-term fluctuations related to debt securities	1	47

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 2015 is based on an average annual risk margin reserve of 23 basis points (2014: 24 basis points) on average book values of US\$54.6 billion (2014: US\$54.5 billion) as shown below:

		2015			2014	
Moody’s rating category	Average book	RMR	Annual expected loss	Average book	RMR	Annual expected loss

Edgar Filing: PRUDENTIAL PLC - Form 6-K

(or equivalent under NAIC ratings of mortgage-backed securities)	value				value			
	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m
A3 or higher	28,185	0.13	(37)	(24)	27,912	0.12	(34)	(21)
Baa1, 2 or 3	24,768	0.25	(62)	(40)	24,714	0.25	(62)	(38)
Ba1, 2 or 3	1,257	1.17	(15)	(10)	1,390	1.23	(17)	(10)
B1, 2 or 3	388	3.08	(12)	(8)	385	3.04	(12)	(7)
Below B3	35	3.70	(1)	(1)	92	3.70	(4)	(2)
Total	54,633	0.23	(127)	(83)	54,493	0.24	(129)	(78)

Related amortisation of deferred acquisition costs (see below)

Risk margin reserve charge to operating profit for longer-term credit related losses

24	16	25	15
(103)	(67)	(104)	(63)

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 for unrealised losses on debt securities classified as available-for-sale net of related change in amortisation of deferred acquisition costs of £(968) million (2014: net unrealised gains of £869 million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.3(b).

(iii) UK insurance operations

The negative short-term fluctuations in investment returns for UK insurance operations of £(120) million (2014: positive £464 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business, reflecting the rise in bond yields since the end of 2014.

(iv) Other

The negative short-term fluctuations in investment returns for other operations of £(74) million (2014: negative £(113) million) include unrealised value movements on investments and foreign exchange items.

(v) Default losses

The Group did not experience any default losses on its shareholder-backed debt securities portfolio in 2015 or 2014.

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

Operating segments

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

Insurance operations:

- Asia
- US (Jackson)
- UK

Asset management operations:

- Eastspring Investments
- US broker-dealer and asset management
- M&G
- Prudential Capital

The Group's operating segments are also its reportable segments for the purposes of internal management reporting. Prior to 2015, the Group incorporated Prudential Capital into the M&G operating segment for the purposes of segment reporting. To better reflect the economic characteristics of the two businesses, the Group has in 2015 made a change to present Prudential Capital as a separate reportable segment rather than aggregating this segment within M&G.

Performance measure

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

- Short-term fluctuations in investment returns on shareholder-backed business*;
- Gain on the sale of the Group's stake in the PruHealth and PruProtect businesses in 2014;
- 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;
- The recycling of the cumulative exchange translation loss on the sold Japan life business from other comprehensive income to the income statement in 2015. See note D1 for further details; and
- The costs associated with the domestication of the Hong Kong branch which became effective on 1 January 2014.

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

*Including the impact of short-term market effects on the carrying value of Jackson guarantee liabilities and related derivatives as explained below.

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

(a) General principles

(i) UK style with-profits business

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

(ii) Unit-linked business

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

(iii) US variable annuity and fixed index annuity business

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

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

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

conditions and short-term effects.

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

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

(v) Other shareholder-financed business

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

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

Debt, equity-type securities and loans

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

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

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

At 31 December 2015, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £567 million (2014: £467 million).

Equity type securities

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

Derivative value movements

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

(b) Asia insurance operations

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

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

For certain other types of non-participating business, longer-term interest rates are used to determine the movement in policyholder liabilities for determining operating results.

(ii) Other Asia shareholder-financed business

Debt securities

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

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £840 million as at 31 December 2015 (2014: £932 million). The rates of return applied in the years 2015 and 2014 ranged from 2.73 per cent to 13.75 per cent with the rates applied varying by territory. These rates are determined after consideration by the Group's in-house economists of long-term expected real government bond returns, equity risk premium and long-term inflation. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each territory. The assumptions are for returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

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

(c) US Insurance operations

(i) Separate account business

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

(ii) US variable and fixed index annuity business

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

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

Embedded derivatives for variable annuity guarantee minimum income benefit

The Guaranteed Minimum Income Benefit liability, which is essentially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting

Standards Codification (ASC) Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) under IFRS using ‘grandfathered’ US GAAP. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, ‘Financial Instruments: Recognition and Measurement’, and the asset is therefore recognised at fair value. As the Guaranteed Minimum Income Benefit is economically reinsured, the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii) Other derivative value movements

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

(iv) Other US shareholder-financed business

Debt securities

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

Equity-type securities

As at 31 December 2015, the equity-type securities for US insurance non-separate account operations amounted to £1,004 million (2014: £1,094 million). For these operations, the longer-term rates of return for income and capital applied in 2015 and 2014, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums are as follows:

	2015	2014
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	5.7% to 6.4%	6.2% to 6.7%
Other equity-type securities such as investments in limited partnerships and private equity funds	7.7% to 8.4%	8.2% to 8.7%

(d) UK Insurance operations

(i) Shareholder-backed annuity business

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

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for annuity business in PRIL and the PAC non-profit sub-fund after adjustments to allocate the following elements of the movement to the category of ‘short-term fluctuations in investment returns’:

- The impact on credit risk provisioning of actual upgrades and downgrades during the period;

Edgar Filing: PRUDENTIAL PLC - Form 6-K

- Credit experience compared to assumptions; and
- Short-term value movements on assets backing the capital of the business.

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

(ii) Non-linked shareholder-financed business

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

(e) Fund management and other non-insurance businesses

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

B2 Profit before tax – asset management operations

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

	Prudential		2015 £m		2014 £m	
			US	Eastspring Investments	Total	Total
	M&G	Capital				
Revenue (excluding NPH broker-dealer fees)	1,237	54	321	352	1,964	2,008
NPH broker-dealer feesnote (i)	-	-	522	-	522	503
Gross revenue	1,237	54	843	352	2,486	2,511
Charges (excluding NPH broker-dealer fees)	(810)	(99)	(310)	(278)	(1,497)	(1,477)
NPH broker-dealer feesnote (i)	-	-	(522)	-	(522)	(503)
Gross charges	(810)	(99)	(832)	(278)	(2,019)	(1,980)
Share of profit from joint ventures and associates, net of related tax	14	-	-	41	55	42
Profit before tax	441	(45)	11	115	522	573
Comprising:						
Operating profit based on longer-term investment returnsnote (ii)	442	19	11	115	587	590
Short-term fluctuations in investment returns	(1)	(64)	-	-	(65)	(17)
Profit before tax	441	(45)	11	115	522	573

Notes

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

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

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

	2015 £m	2014 £m
Asset management fee income	934	953
Other income	5	1
Staff costs	(293)	(351)
Other costs	(240)	(203)
Underlying profit before performance-related fees	406	400
Share of associate results	14	13
Performance-related fees	22	33
Total M&G operating profit based on longer-term investment returns	442	446

The revenue for M&G of £961 million (2014: £987 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £1,237 million shown

in the main table of this note. This is because the £961 million (2014: £987 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission

is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2015 £m	2014 £m
Acquisition costs incurred for insurance policies	(3,275)	(2,668)
Acquisition costs deferred less amortisation of acquisition costs	431	916
Administration costs and other expenditure	(4,746)	(4,486)
Movements in amounts attributable to external unit holders of consolidated investment funds	(618)	(514)
Total acquisition costs and other expenditure	(8,208)	(6,752)

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

The following features are of relevance to the determination of the 2015 results:

(a) Asia insurance operations

In 2015, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a profit of £62 million (2014: £49 million) representing a number of non-recurring items, none of which are individually significant.

(b) UK insurance operations

Annuity business

Allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Credit risk

allowance comprises (i) an amount for long-term best estimate defaults, and (ii) additional provisions for credit risk premium, downgrade resilience and short-term defaults.

The weighted components of the bond spread over swap rates for shareholder-backed fixed and linked annuity business for PRIL, the principal company which writes the UK's shareholder-backed business, based on the asset mix at these dates are shown below.

	31 Dec 2015 (bps)			31 Dec 2014 (bps)		
	Pillar 1 regulatory		IFRS	Pillar 1 regulatory		IFRS
	basis	Adjustment		basis	Adjustment	
Bond spread over swap rates note (i)	171	-	171	143	-	143
Credit risk allowance:						
Long-term expected defaults note (ii)	13	-	13	14	-	14
Additional provisions note (iii)	42	(12)	30	44	(12)	32
Total credit risk allowance	55	(12)	43	58	(12)	46
Liquidity premium	116	12	128	85	12	97

Notes

- (i) Bond spread over swap rates reflect market observed data.
- (ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard & Poor's and Fitch.
- (iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a one-notch downgrade of the portfolio subject to credit risk and an additional allowance for short-term defaults.

The prudent Pillar 1 regulatory basis reflects the overriding objective of maintaining sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS aims to establish liabilities that are closer to 'best estimate'.

Movement in the credit risk allowance for PRIL

The movement during 2015 of the average basis points allowance for PRIL on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1	
	Regulatory basis	IFRS
	Total (bps)	Total (bps)
Total allowance for credit risk at 31 December 2014	58	46
Credit rating changes	2	1
Asset trading	(2)	(2)
Other effects (including for new business)	(3)	(2)
Total allowance for credit risk at 31 December 2015	55	43

Overall, the movement has led to the credit allowance for Pillar 1 purposes to be 32 per cent (2014: 41 per cent) of the bond spread over swap rates. For IFRS purposes it represents 25 per cent (2014: 32 per cent) of the bond spread over swap rates.

The reserves for credit risk allowance at 31 December 2015 for the UK shareholder annuity fund were as follows:

	Pillar 1 Regulatory basis		IFRS
	Total £bn	Total £bn	Total £bn
PRIL	1.9	1.5	
PAC non-profit sub-fund	0.2	0.1	
Total 31 December 2015	2.1	1.6	
Total 31 December 2014	2.2	1.7	

Other assumption changes

For the shareholder-backed business, in addition to the movement in the credit risk allowance discussed above, the net effect of routine changes to assumptions in 2015, was a credit of £31 million (2014: £28 million).

Other one-off transactions

During 2015 the UK insurance operations entered into additional longevity reinsurance transactions to extend total coverage from £2.3 billion of annuity liabilities at the start of the year to £8.7 billion at the end of 2015 (on a Pillar 1 basis). Overall these transactions generated profit of £231 million (2014: £30 million). Of the £231 million, £170 million relates to transactions undertaken in the second half of 2015 covering £4.8 billion of annuity liabilities (on a Pillar 1 basis). These transactions together with other specific management actions undertaken to position the balance sheet more efficiently under the new Solvency II regime, gave rise to IFRS operating profit in the second of 2015 of £339 million in total, which is not expected to recur in future periods.

B5 Tax charge

(a) Total tax charge by nature of expense

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

	2015 £m		2014 £m	
	Current tax	Deferred tax	Total	Total
Tax charge				
UK tax	(218)	69	(149)	(578)
Overseas tax	(516)	(77)	(593)	(360)
Total tax (charge) credit	(734)	(8)	(742)	(938)

The current tax charge of £734 million includes £35 million (2014: £37 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either (i) 5 per cent of the net insurance premium or (ii) the estimated assessable profits, depending on the nature of the business written.

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

	2015 £m		2014 £m	
	Current tax	Deferred tax	Total	Total
Tax charge				
Tax charge to policyholders' returns	(188)	15	(173)	(540)
Tax charge attributable to shareholders	(546)	(23)	(569)	(398)
Total tax (charge) credit	(734)	(8)	(742)	(938)

The principal reason for the decrease in the tax charge attributable to policyholders' returns is a reduction in the current tax owing to a significant decrease on investment returns in the second half of the year in the with-profits life fund in the UK insurance operations.

(b) Reconciliation of effective tax rate

Reconciliation of tax charge on profit attributable to shareholders

	2015 £m				Total
	Asia insurance operations	US insurance operations	UK Insurance operations	Other operations	
Operating profit based on longer-term investment returns	1,209	1,691	1,195	(88)	4,007
Non-operating profit	(173)	(492)	(120)	(74)	(859)
Profit (loss) before tax attributable to shareholders	1,036	1,199	1,075	(162)	3,148
Expected tax rate*	24%	35%	20%	20%	27%
Tax at the expected rate	249	420	215	(32)	852
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	(42)	(10)	(2)	(9)	(63)
Deductions not allowable for tax purposes	15	5	7	6	33
Items related to taxation of life insurance businesses	(20)	(113)	-	-	(133)
Deferred tax adjustments	10	-	-	(11)	(1)
Effect of results of joint ventures and associates	(37)	-	-	(13)	(50)
Irrecoverable withholding taxes	-	-	-	28	28
Other	(4)	(1)	6	2	3
Total	(78)	(119)	11	3	(183)
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	5	(65)	(7)	-	(67)
Movements in provisions for open tax matters	(6)	-	-	(5)	(11)
Impact of changes in local statutory tax rates	(5)	-	(16)	(1)	(22)
Total	(6)	(65)	(23)	(6)	(100)
Total actual tax charge/(credit)	165	236	203	(35)	569
Analysed into:					
Tax on operating profit based on longer-term investment returns	180	408	227	(19)	796
Tax on non-operating profit	(15)	(172)	(24)	(16)	(227)
Actual tax rate:					
Operating profit based on longer-term investment returns	15%	24%	19%	22%	20%

Edgar Filing: PRUDENTIAL PLC - Form 6-K

	2014 £m				
	Asia insurance operations	US insurance operations	UK Insurance operations†	Other operations†	Total
Including non-recurring tax reconciling items					
Excluding non-recurring tax reconciling items	15%	28%	21%	15%	22%
Total profit	16%	20%	19%	22%	18%
Operating profit based on longer-term investment returns	1,050	1,431	753	(48)	3,186
Non-operating profit	170	(1,174)	545	(113)	(572)
Profit (loss) before tax attributable to shareholders	1,220	257	1,298	(161)	2,614
Expected tax rate*	22%	35%	21%	22%	23%
Tax at the expected rate	268	90	273	(35)	596
Effects of recurring tax reconciliation items:					
Income not taxable or taxable at concessionary rates	(17)	(6)	-	(2)	(25)
Deductions not allowable for tax purposes	13	-	7	9	29
Items related to taxation of life insurance businesses	(44)	(76)	-	-	(120)
Deferred tax adjustments	(8)	-	(7)	(11)	(26)
Effect of results of joint ventures and associates	(40)	-	(8)	(10)	(58)
Irrecoverable withholding taxes	-	-	-	27	27
Other	(4)	1	(4)	7	-
Total	(100)	(81)	(12)	20	(173)
Effects of non-recurring tax reconciliation items:					
Adjustments to tax charge in relation to prior years	(2)	(1)	3	(7)	(7)
Movements in provisions for open tax matters	7	-	-	(26)	(19)
Impact of changes in local statutory tax rates	(1)	-	2	-	1
Total	4	(1)	5	(33)	(25)
Total actual tax charge/(credit)	172	8	266	(48)	398
Analysed into:					
Tax on operating profit based on longer-term investment returns	171	419	163	(29)	724
Tax on non-operating profit	1	(411)	103	(19)	(326)
Actual tax rate:					
Operating profit based on longer-term investment returns					
Including non-recurring tax reconciling items	16%	29%	22%	60%	23%
Excluding non-recurring tax reconciling items	16%	29%	21%	(8)%	24%

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Total profit 14% 3% 21% 30% 15%

*The expected tax rates (rounded to the nearest whole percentage) reflect the corporation tax rates generally applied to taxable profit of the relevant country jurisdictions. For Asia operations the expected tax rates reflect the corporation tax rates weighted by reference to the source of profit of operations contributing to the aggregate business result. The expected tax rate for Other operations reflects the mix of business between UK and overseas non-insurance operations, which are taxed at a variety of rates. The rates will fluctuate from year to year dependent on the mix of profit.

In order to show the UK insurance business on a comparable basis, the full year 2014 comparatives exclude the contribution from the sold PruHealth and PruProtect businesses from the UK insurance operations and show it in the column for Other operations.

B6

Earnings per share

	Note	2015				
		Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share
		B1.1 £m	B5 £m	£m	Pence	Pence
Based on operating profit based on longer-term investment returns		4,007	(796)	3,211	125.8p	125.6p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(737)	202	(535)	(21.0)p	(20.9)p
Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income	D1	(46)	-	(46)	(1.8)p	(1.8)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Based on profit for the year		3,148	(569)	2,579	101.0p	100.9p
2014						
	Note	Before tax	Tax	Net of tax	Basic earnings per share	Diluted earnings per share
		B1.1 £m	B5 £m	£m	Pence	Pence
		£m	£m	£m	Pence	Pence
Based on operating profit based on longer-term investment returns		3,186	(724)	2,462	96.6p	96.5p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(574)	299	(275)	(10.8)p	(10.8)p
Gain on sale of PruHealth and PruProtect		86	-	86	3.4p	3.4p
Amortisation of acquisition accounting adjustments		(79)	26	(53)	(2.1)p	(2.1)p
Costs of domestication of Hong Kong branch		(5)	1	(4)	(0.2)p	(0.2)p
Based on profit for the year		2,614	(398)	2,216	86.9p	86.8p

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:

	2015	2014
	(millions)	(millions)
Weighted average number of shares for calculation of:		
Basic earnings per share	2,553	2,549
Shares under option at end of year	9	9
Number of shares that would have been issued at fair value on assumed option price	(6)	(6)
Diluted earnings per share	2,556	2,552

B7	Dividends			
	2015		2014	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
Interim dividend	12.31p	315	11.19p	287
Second interim dividend / Final dividend	26.47p	681	25.74p	658
Special dividend	10.00p	257		
Total	48.78p	1,253	36.93p	945
Dividends declared and paid in reporting year:				
Current year interim dividend	12.31p	315	11.19p	285
Final dividend for prior year	25.74p	659	23.84p	610
Total	38.05p	974	35.03p	895

Dividend per share

Interim and special dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders. The final dividend for the year ended 31 December 2014 of 25.74 pence per ordinary share was paid to eligible shareholders on 21 May 2015 and the 2015 interim dividend of 12.31 pence per ordinary share was paid to eligible shareholders on 25 September 2015. From 2016, Prudential will make twice-yearly interim dividend payments to replace final / interim dividend.

The second interim ordinary and special dividend for the year ended 31 December 2015 of 26.47 pence and 10.00 pence per ordinary share respectively will be paid on 20 May 2016 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 29 March 2016 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 27 May 2016. The second interim ordinary and special dividend will be paid on or about 27 May 2016 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 8 March 2016. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore dollars, will be determined by CDP.

Shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C

BALANCE SHEET NOTES

C1 Analysis of Group position by segment and business type

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.

C1.1 Group statement of financial position – analysis by segment

	Note	2015 £m					2014			
		Asia	US	UK	Total	Unallo-	Elimin-	31 Dec	31 Dec	
		C2.1	C2.2	C2.3	insurance	manage-	(central	debtors	Group	Group
					operations	ment	opera-	and	Total	Total
						operations	tions)	creditors		
						C2.4				
By operating segment										
Assets										
Intangible assets										
attributable to										
shareholders:										
Goodwill	C5.1(a)	233	-	-	233	1,230	-	-	1,463	1,463
Deferred acquisition										
costs and other										
intangible assets	C5.1(b)	2,103	6,168	83	8,354	21	47	-	8,422	7,261
Total		2,336	6,168	83	8,587	1,251	47	-	9,885	8,724
Intangible										
assets attributable to										
with-profits funds:										
Goodwill in respect										
of acquired										
subsidiaries for										
venture fund and										
other investment										
purposes		-	-	185	185	-	-	-	185	186
Deferred acquisition										
costs and other										
intangible assets		42	-	8	50	-	-	-	50	61
Total		42	-	193	235	-	-	-	235	247
Total		2,378	6,168	276	8,822	1,251	47	-	10,120	8,971
Deferred tax assets	C8.1	66	2,448	132	2,646	140	33	-	2,819	2,765
Other non-investment										
and non-cash assets		3,621	7,205	7,209	18,035	1,504	4,886	(10,142)	14,283	12,781
Investments of										
long-term business and										
other operations:										
Investment										
properties		5	5	13,412	13,422	-	-	-	13,422	12,764
Investments in joint		475	-	434	909	125	-	-	1,034	1,017
ventures and										
associates accounted										

Edgar Filing: PRUDENTIAL PLC - Form 6-K

for using the equity method										
Loans	C3.4	1,084	7,418	3,571	12,073	885	-	-	12,958	12,841
Equity securities and portfolio holdings in unit trusts		18,532	91,216	47,593	157,341	85	27	-	157,453	144,862
Debt securities	C3.3	28,292	34,071	83,101	145,464	2,204	3	-	147,671	145,251
Other investments		57	1,715	5,486	7,258	94	1	-	7,353	7,623
Deposits		773	-	11,226	11,999	89	-	-	12,088	13,096
Total investments		49,218	134,425	164,823	348,466	3,482	31	-	351,979	337,454
Assets held for sale		-	-	2	2	-	-	-	2	824
Cash and cash equivalents		2,064	1,405	2,880	6,349	1,054	379	-	7,782	6,409
Total assets	C3.1	57,347	151,651	175,322	384,320	7,431	5,376	(10,142)	386,985	369,204

		2015 £m							2014	
		Insurance operations							£m	
By operating segment	Note	Asia C2.1	US C2.2	UK C2.3	Total insurance operations	Asset manage- ment operations C2.4	Unallo- cated to a segment (central opera- tions)	Elimin- ation of intra- group debtors and creditors	31 Dec Group Total	31 Dec Group Total
Equity and liabilities										
Equity										
Shareholders' equity		3,956	4,154	5,140	13,250	2,332	(2,627)	-	12,955	11,811
Non-controlling interests		1	-	-	1	-	-	-	1	1
Total equity		3,957	4,154	5,140	13,251	2,332	(2,627)	-	12,956	11,812
Liabilities										
Policyholder liabilities and unallocated surplus of with-profits funds:										
Insurance contract liabilities		42,084	136,129	83,801	262,014	-	-	(1,261)	260,753	250,038
Investment contract liabilities with discretionary participation features		251	-	42,708	42,959	-	-	-	42,959	39,277
Investment contract liabilities without discretionary participation		181	2,784	15,841	18,806	-	-	-	18,806	20,224

Edgar Filing: PRUDENTIAL PLC - Form 6-K

features										
Unallocated surplus of with-profits funds		2,553	- 10,543	13,096	-	-	-	13,096	12,450	
Total policyholder liabilities and unallocated surplus of with-profits funds	C4.1(a)	45,069	138,913	152,893	336,875	-	-	(1,261)	335,614	321,989
Core structural borrowings of shareholder-financed operations:										
Subordinated debt		-	-	-	-	-	4,018	-	4,018	3,320
Other		-	169	-	169	275	549	-	993	984
Total	C6.1	-	169	-	169	275	4,567	-	5,011	4,304
Operational borrowings attributable to shareholder-financed operations	C6.2	-	66	179	245	10	1,705	-	1,960	2,263
Borrowings attributable to with-profits operations	C6.2	-	-	1,332	1,332	-	-	-	1,332	1,093
Other non-insurance liabilities:										
Obligations under funding, securities lending and sale and repurchase agreements		-	1,914	1,651	3,565	200	-	-	3,765	2,347
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,802	22	5,049	7,873	-	-	-	7,873	7,357
Deferred tax liabilities	C8.1	734	2,086	1,162	3,982	17	11	-	4,010	4,291
Current tax liabilities		50	3	203	256	50	19	-	325	617
Accruals and deferred income		136	-	447	583	300	69	-	952	947
Other creditors		3,266	1,022	4,591	8,879	3,695	1,183	(8,881)	4,876	4,262
Provisions		119	6	158	283	244	77	-	604	724
Derivative liabilities		140	249	2,125	2,514	283	322	-	3,119	2,323
Other liabilities		1,074	3,047	392	4,513	25	50	-	4,588	4,105
Total		8,321	8,349	15,778	32,448	4,814	1,731	(8,881)	30,112	26,973
Liabilities held for sale	D1	-	-	-	-	-	-	-	-	770
Total liabilities	C3.1	53,390	147,497	170,182	371,069	5,099	8,003	(10,142)	374,029	357,392
Total equity and liabilities		57,347	151,651	175,322	384,320	7,431	5,376	(10,142)	386,985	369,204

C1.2

Group statement of financial position – analysis by business type

	Note	31 Dec 2015 £m						31 Dec 2014 £m	
		Policyholder Participating funds	Shareholder-backed business			Unallo- cated to a segment (central opera- tions)	Elimin- ations of Intra- group debtors and creditors	Group Total	Group Total
			Unit- linked and variable annuity	Non- linked business	Asset manage- ment opera- tions				
Assets									
Intangible assets attributable to shareholders:									
Goodwill	C5.1(a)	-	-	233	1,230	-	-	1,463	1,463
Deferred acquisition costs and other intangible assets	C5.1(b)	-	-	8,354	21	47	-	8,422	7,261
Total		-	-	8,587	1,251	47	-	9,885	8,724
Intangible assets attributable to with-profits funds:									
In respect of acquired subsidiaries for venture fund and other investment purposes									
Deferred acquisition costs and other intangible assets		185	-	-	-	-	-	185	186
Total		50	-	-	-	-	-	50	61
Total		235	-	-	-	-	-	235	247
Total		235	-	8,587	1,251	47	-	10,120	8,971
Deferred tax assets	C8.1	83	1	2,562	140	33	-	2,819	2,765
Other non-investment and non-cash assets		3,649	578	11,174	1,504	4,886	(7,508)	14,283	12,781
Investments of long-term business and other operations:									
Investment properties		11,115	705	1,602	-	-	-	13,422	12,764
Investments in joint ventures and associates accounted for using the equity method		434	-	475	125	-	-	1,034	1,017
Financial investments:									
Loans	C3.4	2,599	-	9,474	885	-	-	12,958	12,841
Equity securities and portfolio holdings in unit trusts		39,195	117,067	1,079	85	27	-	157,453	144,862
Debt securities	C3.3	60,870	9,290	75,304	2,204	3	-	147,671	145,251
Other investments		5,045	29	2,184	94	1	-	7,353	7,623
Deposits		8,970	1,049	1,980	89	-	-	12,088	13,096
Total investments		128,228	128,140	92,098	3,482	31	-	351,979	337,454

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Assets held for sale		2	-	-	-	-	-	2	824
Cash and cash equivalents		2,623	829	2,897	1,054	379	-	7,782	6,409
Total assets		134,820	129,548	117,318	7,431	5,376	(7,508)	386,985	369,204
Equity and liabilities									
Equity									
Shareholders' equity		-	-	13,250	2,332	(2,627)	-	12,955	11,811
Non-controlling interests		-	-	1	-	-	-	1	1
Total equity		-	-	13,251	2,332	(2,627)	-	12,956	11,812
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)									
		107,907	125,819	88,792	-	-	-	322,518	309,539
Unallocated surplus of with-profits funds									
		13,096	-	-	-	-	-	13,096	12,450
Total policyholder liabilities and unallocated surplus of with-profits funds	C4.1(a)	121,003	125,819	88,792	-	-	-	335,614	321,989
Core structural borrowings of shareholder-financed operations:									
Subordinated debt									
		-	-	-	-	4,018	-	4,018	3,320
Other									
		-	-	169	275	549	-	993	984
Total	C6.1	-	-	169	275	4,567	-	5,011	4,304
Operational borrowings attributable to shareholder-financed operations									
	C6.2(a)	-	4	241	10	1,705	-	1,960	2,263
Borrowings attributable to with-profits operations									
	C6.2(b)	1,332	-	-	-	-	-	1,332	1,093
Deferred tax liabilities									
	C8.1	1,326	27	2,629	17	11	-	4,010	4,291
Other non-insurance liabilities									
		11,159	3,698	12,236	4,797	1,720	(7,508)	26,102	22,682
Liabilities held for sale									
	D1	-	-	-	-	-	-	-	770
Total liabilities		134,820	129,548	104,067	5,099	8,003	(7,508)	374,029	357,392
Total equity and liabilities		134,820	129,548	117,318	7,431	5,376	(7,508)	386,985	369,204

C2 Analysis of segment position by business type

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

C2.1 Asia insurance operations

31 Dec 2015 £m

31 Dec

				2014 £m		
	Note	With-profits business note	Unit-linked assets and liabilities	Other business	Total	Total
Assets						
Intangible assets attributable to shareholders:						
Goodwill		-	-	233	233	233
Deferred acquisition costs and other intangible assets		-	-	2,103	2,103	1,911
Total		-	-	2,336	2,336	2,144
Intangible assets attributable to with-profits funds:						
Deferred acquisition costs and other intangible assets		42	-	-	42	54
Deferred tax assets		-	1	65	66	84
Other non-investment and non-cash assets		1,981	207	1,433	3,621	3,111
Investments of long-term business and other operations:						
Investment properties		-	-	5	5	-
Investments in joint ventures and associates accounted for using the equity method		-	-	475	475	374
Financial investments:						
Loans	C3.4	540	-	544	1,084	1,014
Equity securities and portfolio holdings in unit trusts		6,861	10,831	840	18,532	19,200
Debt securities	C3.3	16,335	2,809	9,148	28,292	23,629
Other investments		28	16	13	57	48
Deposits		188	214	371	773	769
Total investments		23,952	13,870	11,396	49,218	45,034
Assets held for sale		-	-	-	-	819
Cash and cash equivalents		863	363	838	2,064	1,684
Total assets		26,838	14,441	16,068	57,347	52,930
Equity and liabilities						
Equity						
Shareholders' equity		-	-	3,956	3,956	3,548
Non-controlling interests		-	-	1	1	1
Total equity		-	-	3,957	3,957	3,549
Liabilities						
Policyholder liabilities and unallocated surplus of with-profits funds:						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		19,642	13,355	9,519	42,516	40,068
Unallocated surplus of with-profits funds		2,553	-	-	2,553	2,102
Total	C4.1(b)	22,195	13,355	9,519	45,069	42,170
Deferred tax liabilities		474	27	233	734	719
Other non-insurance liabilities		4,169	1,059	2,359	7,587	5,722
Liabilities held for sale		-	-	-	-	770
Total liabilities		26,838	14,441	12,111	53,390	49,381

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Total equity and liabilities	26,838	14,441	16,068	57,347	52,930
------------------------------	--------	--------	--------	--------	--------

Note

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

C2.2 US insurance operations

		31 Dec 2015 £m		31 Dec 2014 £m	
	Note	Variable annuity separate account assets and liabilities note (i)	Fixed annuity, GIC and other business note (i)	Total	Total
Assets					
Intangible assets attributable to shareholders:					
Deferred acquisition costs and other intangibles		-	6,168	6,168	5,197
Total		-	6,168	6,168	5,197
Deferred tax assets		-	2,448	2,448	2,343
Other non-investment and non-cash assets	note (ii)	-	7,205	7,205	6,617
Investments of long-term business and other operations:					
Investment properties		-	5	5	28
Financial investments:					
Loans	C3.4	-	7,418	7,418	6,719
Equity securities and portfolio holdings in unit trusts	note (iii)	91,022	194	91,216	82,081
Debt securities	C3.3	-	34,071	34,071	32,980
Other investments	note (iv)	-	1,715	1,715	1,670
Total investments		91,022	43,403	134,425	123,478
Cash and cash equivalents		-	1,405	1,405	904
Total assets		91,022	60,629	151,651	138,539
Equity and liabilities					
Equity					
Shareholders' equity	note (v)	-	4,154	4,154	4,067
Total equity		-	4,154	4,154	4,067
Liabilities					
Policyholder liabilities:					
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		91,022	47,891	138,913	126,746
Total	C4.1(c)	91,022	47,891	138,913	126,746
Core structural borrowings of shareholder-financed operations					
		-	169	169	160
Operational borrowings attributable to shareholder-financed operations					
		-	66	66	179

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Deferred tax liabilities	-	2,086	2,086	2,308
Other non-insurance liabilities	-	6,263	6,263	5,079
Total liabilities	91,022	56,475	147,497	134,472
Total equity and liabilities	91,022	60,629	151,651	138,539

Notes

- (i) These amounts are for separate account assets and liabilities for all variable annuity products comprising those with and without guarantees. Assets and liabilities attaching to variable annuity business that are not held in the separate account, eg, in respect of guarantees are shown within other business.
- (ii) Included within other non-investment and non-cash assets of £7,205 million (2014: £6,617 million) were balances of £6,211 million (2014: £5,979 million) for reinsurers' share of insurance contract liabilities. Of the £6,211 million as at 31 December 2015, £5,388 million related to the reinsurance ceded by the REALIC business (2014: £5,174 million). Jackson holds collateral for certain of these reinsurance arrangements with a corresponding funds withheld liability. As of 31 December 2015, the funds withheld liability of £2,347 million (2014: £2,201 million) was recorded within other non-insurance liabilities.
- (iii) Equity securities and portfolio holdings in unit trusts include investments in mutual funds, the majority of which are equity-based.
- (iv) Other investments comprise:

	2015 £m	2014 £m
Derivative assets*	905	916
Partnerships in investment pools and other**	810	754
	1,715	1,670

* After taking account of the derivative liabilities of £249 million (2014: £251 million), which are included in other non-insurance liabilities, the derivative position for US operations is a net asset of £656 million (2014: £665 million).

** Partnerships in investment pools and other comprise primarily investments in limited partnerships. These include interests in the PPM America Private Equity Fund and diversified investments in 162 (2014: 164) other partnerships by independent money managers that generally invest in various equities and fixed income loans and securities.

(v) Changes in shareholders' equity:

	2015 £m	2014 £m
Operating profit based on longer-term investment returns B1.1	1,691	1,431
Short-term fluctuations in investment returns B1.2	(424)	(1,103)
Amortisation of acquisition accounting adjustments arising from the purchase of REALIC	(68)	(71)
Profit before shareholder tax	1,199	257
Tax B5	(236)	(8)
Profit for the year	963	249

	2015 £m	2014 £m
Profit for the year (as above)	963	249
Items recognised in other comprehensive income:		
Exchange movements	230	235
Unrealised valuation movements on securities classified as available-for sale:		
Unrealised holding (losses) gains arising during the year	(1,256)	1,039
Less: net gains included in the income statement on disposal and impairment	(49)	(83)
Total unrealised valuation movements	(1,305)	956

Edgar Filing: PRUDENTIAL PLC - Form 6-K

	Related change in amortisation of deferred acquisition costs C5.1(b)	337	(87)
	Related tax	339	(304)
	Total other comprehensive (loss) income	(399)	800
	Total comprehensive income for the year	564	1,049
	Dividends, interest payments to central companies and other movements	(477)	(428)
	Net increase in equity	87	621
	Shareholders' equity at beginning of year	4,067	3,446
	Shareholders' equity at end of year	4,154	4,067

C2.3 UK insurance operations

Of the total investments of £165 billion in UK insurance operations, £104 billion of investments are held by Scottish Amicable Insurance Fund and the PAC with-profits sub-fund. Shareholders are exposed only indirectly to value movements on these assets.

		31 Dec 2015 £m					31 Dec 2014	
		Other funds and subsidiaries					£m	
		Scottish Amicable Insurance Fund	PAC with-profits sub-fund	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Total	Total
	Note	note (i)	note (ii)					
By operating segment								
Assets								
Intangible assets attributable to shareholders:								
Deferred acquisition costs and other intangible assets		-	-	-	83	83	83	86
Total		-	-	-	83	83	83	86
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes		-	185	-	-	-	185	186
Deferred acquisition costs		-	8	-	-	-	8	7
Total		-	193	-	-	-	193	193
Total		-	193	-	83	83	276	279
Deferred tax assets		1	82	-	49	49	132	132
Other non-investment and non-cash assets		171	4,131	371	2,536	2,907	7,209	6,826
Investments of long-term business and other operations:								
Investment properties		358	10,757	705	1,592	2,297	13,412	12,736
Investments in joint ventures and associates accounted for using the equity method		-	434	-	-	-	434	536
Financial investments:								

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Loans	C3.4	61	1,998	-	1,512	1,512	3,571	4,254
Equity securities and portfolio holdings in unit trusts		2,530	29,804	15,214	45	15,259	47,593	43,468
Debt securities	C3.3	2,331	42,204	6,481	32,085	38,566	83,101	86,349
Other investments note (iii)		210	4,807	13	456	469	5,486	5,782
Deposits		399	8,383	835	1,609	2,444	11,226	12,253
Total investments		5,889	98,387	23,248	37,299	60,547	164,823	165,378
Properties held for sale		-	2	-	-	-	2	5
Cash and cash equivalents		169	1,591	466	654	1,120	2,880	2,457
Total assets		6,230	104,386	24,085	40,621	64,706	175,322	175,077

		31 Dec 2015 £m					31 Dec 2014	£m
		Other funds and subsidiaries						
		Scottish Amicable Insurance Fund	PAC with-profits sub-fund	Unit-linked assets and liabilities	Annuity and other long-term business	Total	Total note (iv)	Total
	Note	note (i)	note (ii)					
Equity and liabilities								
Equity								
Shareholders' equity		-	-	-	5,140	5,140	5,140	3,804
Total equity		-	-	-	5,140	5,140	5,140	3,804
Liabilities								
Policyholder liabilities and unallocated surplus of with-profits funds:								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)		5,919	83,607	21,442	31,382	52,824	142,350	144,088
Unallocated surplus of with-profits funds (reflecting application of 'realistic' basis provisions for UK regulated with-profits funds)		-	10,543	-	-	-	10,543	10,348
Total	C4.1(d)	5,919	94,150	21,442	31,382	52,824	152,893	154,436
Operational borrowings attributable to shareholder-financed		-	-	4	175	179	179	74

operations

Borrowings attributable to							
with-profits funds	12	1,320	-	-	-	1,332	1,093
Deferred tax liabilities	31	821	-	310	310	1,162	1,228
Other non-insurance							
liabilities	268	8,095	2,639	3,614	6,253	14,616	14,442
Total liabilities	6,230	104,386	24,085	35,481	59,566	170,182	171,273
Total equity and liabilities	6,230	104,386	24,085	40,621	64,706	175,322	175,077

Notes

(i) The fund is solely for the benefit of policyholders of SAIF. Shareholders have no interest in the profits of this fund although they are entitled to asset management fees on this business. SAIF is a separate sub-fund within the PAC long-term business fund.

(ii) 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). Included in the PAC with-profits fund is £10.8 billion (2014: £11.7 billion) of non-profits annuities liabilities. The WPSF's profits are apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution is determined via the annual actuarial valuation. For the purposes of this table and subsequent explanation, references to the WPSF also include, for convenience, the amounts attaching to the Defined Charges Participating Sub-fund which comprises 4 per cent of the total assets of the WPSF and includes the with-profits annuity business transferred to Prudential from the Equitable Life Assurance Society on 1 December 2007 (with assets of approximately £1.7 billion). Profits to shareholders on this with-profits annuity business emerge on a 'charges less expenses' basis and policyholders are entitled to 100 per cent of the investment earnings.

(iii) Other investments comprise:

	2015 £m	2014 £m
Derivative assets*	1,930	2,344
Partnerships in investment pools and other**	3,556	3,438
	5,486	5,782

* After taking account of derivative liabilities of £2,125 million (2014: £1,381 million), which are also included in the statement of financial position, the overall derivative position was a net liability of £195 million (2014: net asset of £963 million).

** Partnerships in investment pools and other comprise mainly investments held by the PAC with-profits fund. These investments are primarily investments in limited partnerships and additionally, investments in property funds.

(iv) The shareholders' equity at 31 December 2015 includes the effect of a classification change of £702 million from Other operations to UK insurance operations in order to align with Solvency II segmental reporting, with no overall effect on the Group's shareholders' equity.

C2.4

Asset management operations

Note	31 Dec 2015 £m				31 Dec 2014 £m	
	M&G	Prudential Capital	Eastspring US Investments	Total	Total	Total
Assets						
Intangible assets:						
Goodwill	1,153	-	16	61	1,230	1,230
	16	-	3	2	21	21

Deferred acquisition costs and other intangible assets						
Total	1,169	-	19	63	1,251	1,251
Other non-investment and non-cash assets	715	614	236	79	1,644	1,605
Investments in joint ventures and associates accounted for using the equity method	29	-	-	96	125	107
Financial investments:						
Loans C3.4	-	885	-	-	885	854
Equity securities and portfolio holdings in unit trusts	70	-	-	15	85	79
Debt securities C3.3	-	2,204	-	-	2,204	2,293
Other investments	15	74	5	-	94	121
Deposits	-	-	50	39	89	74
Total investments	114	3,163	55	150	3,482	3,528
Cash and cash equivalents	430	415	79	130	1,054	1,044
Total assets	2,428	4,192	389	422	7,431	7,428
Equity and liabilities						
Equity						
Shareholders' equity	1,774	70	182	306	2,332	2,077
Total equity	1,774	70	182	306	2,332	2,077
Liabilities						
Core structural borrowing of shareholder-financed operations	-	275	-	-	275	275
Operational borrowings attributable to shareholder-financed operations	10	-	-	-	10	6
Intra-group debt represented by operational borrowings at Group level note (i)	-	1,705	-	-	1,705	2,004
Other non-insurance liabilities note (ii)	644	2,142	207	116	3,109	3,066
Total liabilities	654	4,122	207	116	5,099	5,351
Total equity and liabilities	2,428	4,192	389	422	7,431	7,428

Notes

(i) Intra-group debt represented by operational borrowings at Group level, which are in respect of Prudential Capital's short-term fixed income security programme and comprise:

	2015 £m	2014 £m
Commercial Paper	1,107	1,704
Medium Term Notes	598	300
Total intra-group debt represented by operational borrowings at Group level	1,705	2,004

(ii) Other non-insurance liabilities consist primarily of intra-group balances, derivative liabilities and other creditors.

C3 Assets and Liabilities - classification and measurement

C3.1 Group assets and liabilities - classification

The classification of the Group's assets and liabilities, and its corresponding accounting carrying values reflect the requirements of IFRS. For financial investments, the basis of valuation reflects the Group's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Group has followed the principles under IFRS 13 'Fair Value Measurement'. The basis applied is summarised below:

	31 December 2015 £m				31 December 2014 £m			
	At fair value	Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fair value, where applicable	At fair value	Cost/ amortised cost/ IFRS 4 basis value note (i)	Total carrying value	Fa valu wher applicabl
Assets	Through profit or loss	Available-for-sale			Through profit or loss	Available-for-sale		
Intangible assets attributable to shareholders:								
Goodwill	-	-	1,463	1,463	-	-	1,463	1,463
Deferred acquisition costs and other intangible assets	-	-	8,422	8,422	-	-	7,261	7,261
Total	-	-	9,885	9,885	-	-	8,724	8,724
Intangible assets attributable to with-profits funds:								
In respect of acquired subsidiaries for venture fund and other investment purposes	-	-	185	185	-	-	186	186

Deferred acquisition costs and other intangible assets	-	-	50	50	-	-	61	61		
Total	-	-	235	235	-	-	247	247		
Total intangible assets	-	-	10,120	10,120	-	-	8,971	8,971		
Other non-investment and non-cash assets:										
Property, plant and equipment	-	-	1,197	1,197	-	-	978	978		
Reinsurers' share of insurance contract liabilities	-	-	7,903	7,903	-	-	7,167	7,167		
Deferred tax assets	-	-	2,819	2,819	-	-	2,765	2,765		
Current tax recoverable	-	-	477	477	-	-	117	117		
Accrued investment income	-	-	2,751	2,751	2,751	-	2,667	2,667	2,667	
Other debtors	-	-	1,955	1,955	1,955	-	1,852	1,852	1,852	
Total	-	-	17,102	17,102	-	-	15,546	15,546		
Investments of long-term business and other operations:note (ii)										
Investment properties	13,422	-	-	13,422	13,422	12,764	-	-	12,764	12,764
Investments accounted for using the equity method	-	-	1,034	1,034	-	-	1,017	1,017		
Loans	2,438	-	10,520	12,958	13,482	2,291	10,550	12,841	13,541	
Equity securities and portfolio holdings in	157,453	-	-	157,453	157,453	144,862	-	144,862	144,862	

Edgar Filing: PRUDENTIAL PLC - Form 6-K

unit trusts										
Debt securities	113,687	33,984	-	147,671	147,671	112,354	32,897	-	145,251	145,251
Other investments	7,353	-	-	7,353	7,353	7,623	-	-	7,623	7,623
Deposits	-	-	12,088	12,088	12,088	-	-	13,096	13,096	13,096
Total investments	294,353	33,984	23,642	351,979		279,894	32,897	24,663	337,454	
Assets held for sale	2	-	-	2	2	824	-	-	824	824
Cash and cash equivalents	-	-	7,782	7,782	7,782	-	-	6,409	6,409	6,409
Total assets	294,355	33,984	58,646	386,985		280,718	32,897	55,589	369,204	

		2015 £m				2014 £m			
		At fair value	Cost/ amortised cost/ IFRS 4 basis value	Total carrying value	Fair value, where applicable	At fair value	Cost/ amortised cost/ IFRS 4 basis value	Total carrying value	Fair value, where applicable
	Through profit or loss	Available-for-sale			Through profit or loss	Available-for-sale			
Liabilities									
Policyholder liabilities and unallocated surplus of with-profits funds:									
Insurance contract liabilities	-	-	260,622	260,622	-	-	250,038	250,038	
Investment contract liabilities with discretionary participation features note (iii)	-	-	42,959	42,959	-	-	39,277	39,277	
Investment contract liabilities without discretionary participation features	16,022	-	2,784	18,806	18,842	17,554	-	2,670	20,224
Unallocated surplus of with-profits funds	-	-	13,227	13,227	-	-	-	12,450	12,450
Total	16,022	-	319,592	335,614	17,554	-	304,435	321,989	
Core structural borrowings of shareholder-financed operations	-	-	5,011	5,011	5,419	-	-	4,304	4,304
Other borrowings:	-	-	1,960	1,960	1,960	-	-	2,263	2,263

Operational borrowings attributable to shareholder-financed operations									
Borrowings attributable to with-profits operations	-	-	1,332	1,332	1,344	-	-	1,093	1,093
Other non-insurance liabilities:									
Obligations under funding, securities lending and sale and repurchase agreements	-	-	3,765	3,765	3,775	-	-	2,347	2,347
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	7,873	-	-	7,873	7,873	7,357	-	-	7,357
Deferred tax liabilities	-	-	4,010	4,010		-	-	4,291	4,291
Current tax liabilities	-	-	325	325		-	-	617	617
Accruals and deferred income	-	-	952	952		-	-	947	947
Other creditors	322	-	4,554	4,876	4,876	327	-	3,935	4,262
Provisions	-	-	604	604		-	-	724	724
Derivative liabilities	3,119	-	-	3,119	3,119	2,323	-	-	2,323
Other liabilities	2,347	-	2,241	4,588	4,588	2,201	-	1,904	4,105
Total	13,661	-	16,451	30,112		12,208	-	14,765	26,973
Liabilities held for sale	-	-	-	-		770	-	-	770
Total liabilities	29,683	-	344,346	374,029		30,532	-	326,860	357,392

Notes

- (i) Assets carried at cost or amortised cost are subject to impairment testing where appropriate under IFRS requirements. This category also includes assets which are valued by reference to specific IFRS standards such as reinsurers' share of insurance contract liabilities, deferred tax assets and investments accounted for under the equity method.
- (ii) Realised gains and losses on the Group's investments for 2015 recognised in the income statement amounted to a net gain of £3.0 billion (2014: £2.9 billion).
- (iii) The carrying value of investment contracts with discretionary participation features is on IFRS 4 basis. It is impractical to determine the fair value of these contracts due to the lack of a reliable basis to measure participation features.

(a) Determination of fair value

The fair values of the assets and liabilities of the Group as shown in this note have been determined on the following bases.

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

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

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

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

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

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

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

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

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

Financial instruments at fair value

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

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Equity securities and portfolio holdings in unit trusts	116,691	354	22	117,067
Debt securities	4,350	4,940	-	9,290
Other investments (including derivative assets)	5	20	4	29
Derivative liabilities	(2)	(16)	-	(18)
Total financial investments, net of derivative liabilities	121,044	5,298	26	126,368
Percentage of total	96%	4%	0%	100%
Non-linked shareholder-backed				
Loans	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	1,150	10	31	1,191
Debt securities	17,767	59,491	253	77,511
Other investments (including derivative assets)	-	1,378	901	2,279
Derivative liabilities	-	(1,112)	(353)	(1,465)
Total financial investments, net of derivative liabilities	18,917	60,022	3,015	81,954
Percentage of total	23%	73%	4%	100%

Group total analysis, including other financial liabilities held at fair value

Group total

Loans*	-	255	2,183	2,438
Equity securities and portfolio holdings in unit trusts	153,282	3,564	607	157,453
Debt securities	42,429	104,464	778	147,671
Other investments (including derivative assets)	90	2,987	4,276	7,353
Derivative liabilities	(112)	(2,654)	(353)	(3,119)
Total financial investments, net of derivative liabilities	195,689	108,616	7,491	311,796
Investment contracts liabilities without discretionary participation features held at fair value	-	(16,022)	-	(16,022)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,782)	(1,055)	(1,036)	(7,873)
Other financial liabilities held at fair value	-	(322)	(2,347)	(2,669)
Total financial instruments at fair value	189,907	91,217	4,108	285,232
Percentage of total	67%	32%	1%	100%

*Loans in the above table are those classified as fair value through profit and loss in note C3.1.

	31 Dec 2014 £m			Total
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	31,136	2,832	694	34,662
Debt securities	16,415	42,576	582	59,573
Other investments (including derivative assets)	96	1,997	3,252	5,345
Derivative liabilities	(72)	(1,024)	-	(1,096)
Total financial investments, net of derivative liabilities	47,575	46,381	4,528	98,484
Percentage of total	48%	47%	5%	100%

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	108,392	336	21	108,749
Debt securities	4,509	6,375	11	10,895
Other investments (including derivative assets)	4	29	-	33
Derivative liabilities	(10)	(12)	-	(22)
Total financial investments, net of derivative liabilities	112,895	6,728	32	119,655
Percentage of total	94%	6%	0%	100%
Non-linked shareholder-backed				
Loans	-	266	2,025	2,291
Equity securities and portfolio holdings in unit trusts	1,303	116	32	1,451
Debt securities	15,806	58,780	197	74,783
Other investments (including derivative assets)	-	1,469	776	2,245
Derivative liabilities	-	(867)	(338)	(1,205)
Total financial investments, net of derivative liabilities	17,109	59,764	2,692	79,565
Percentage of total	22%	75%	3%	100%

Group total analysis, including other financial liabilities held at fair value

Group total				
Loans*	-	266	2,025	2,291
Equity securities and portfolio holdings in unit trusts	140,831	3,284	747	144,862
Debt securities	36,730	107,731	790	145,251
Other investments (including derivative assets)	100	3,495	4,028	7,623
Derivative liabilities	(82)	(1,903)	(338)	(2,323)
Total financial investments, net of derivative liabilities	177,579	112,873	7,252	297,704
Investment contracts liabilities without discretionary participation features held at fair value	-	(17,554)	-	(17,554)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,395)	(671)	(1,291)	(7,357)
Other financial liabilities held at fair value	-	(327)	(2,201)	(2,528)
Total financial instruments at fair value	172,184	94,321	3,760	270,265
Percentage of total	64%	35%	1%	100%

*Loans in the above table are those classified as fair value through profit or loss in note C3.1.

In addition to the financial instruments shown above, the assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2014 in respect of Japan life business included a net financial instruments balance of £844 million, primarily for equity securities and debt securities. Of this amount, £814 million was classified as level 1 and £30 million as level 2.

Investment properties at fair value

	£m			Total
	Level 1	Level 2	Level 3	
	Valuation			
	Quoted prices (unadjusted) in active markets	based on significant observable market inputs	Valuation based on significant unobservable market inputs	
2015	-	-	13,422	13,422
2014	-	-	12,764	12,764

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

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

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

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

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £104,464 million at 31 December 2015 (2014: £107,731 million), £10,331 million are valued internally (2014: £10,093 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

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

Valuation approach for level 3 fair valued assets and liabilities

Financial instruments at fair value

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

reflects the price at which an orderly transaction would take place between market participants on the measurement date.

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

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

At 31 December 2015, the Group held £4,108 million (2014: £3,760 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2014: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

Included within these amounts were loans of £2,183 million at 31 December 2015 (2014: £2,025 million), measured as the loan outstanding balance, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,347 million at 31 December 2015 (2014: £2,201 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(164) million (2014: £(176) million), the level 3 fair valued financial assets net of financial liabilities were £4,272 million (2014: £3,936 million). Of this amount, a net liability of £(77) million (2014: net asset of £11 million) were internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2014: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability were:

- (a) Debt securities of £381 million (2014: £298 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
- (b) Private equity and venture investments of £852 million (2014: £1,002 million) which were valued internally based on management information available for these investments. These investments were principally held by consolidated investment funds which are managed on behalf of third parties.
- (c) Liabilities of £(1,013) million (2014: £(1,269) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
- (d) Derivative liabilities of £(353) million (2014: £(23) million) which are valued internally using standard market practices but are subject to independent assessment against external counterparties' valuations.
- (e) Other sundry individual financial investments of £56 million (2014: £3 million).

Of the internally valued net liability referred to above of £(77) million (2014: net asset of £11 million):

- (a) A net asset of £29 million (2014: net liability of £(133) 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 £(106) million (2014: net asset of £144 million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £11 million (2014: £14 million), which would reduce shareholders' equity by this amount before tax. Of this amount, a decrease of £10 million (2014: a decrease of £13 million) would pass through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit and a £1 million decrease (2014: a decrease of £1 million) would be included as part of other comprehensive income, being unrealised movements on assets classified as available-for-sale.

Other assets at fair value – investment properties

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

(e) Transfers into and transfers out of levels

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

During 2015, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £648 million and transfers from level 2 to level 1 of £283 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, in 2015, the transfers into level 3 were £136 million and the transfers out of level 3 were £92 million. These transfers were between levels 3 and 2 and primarily for equity securities and debt securities.

(f) Valuation processes applied by the Group

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

C3.3 Debt securities

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

Debt securities are carried at fair value. The amounts included in the statement of financial position are analysed as follows, with further information relating to the credit quality of the Group's debt securities at 31 December 2015

provided in the notes below.

		2015 £m	2014 £m
Insurance operations:			
	Asia note (a)	28,292	23,629
	US note (b)	34,071	32,980
	UK note (c)	83,101	86,349
Other operationsnote (d)		2,207	2,293
Total		147,671	145,251

In the tables below, with the exception of some mortgage-backed securities, Standard & Poor's (S&P) ratings have been used where available. For securities where S&P ratings are not immediately available, those produced by Moody's and then Fitch have been used as an alternative.

(a)	Asia insurance operations		
		2015 £m	2014 £m
	With-profits business		