

Notes on the IFRS basis results continued

Q: Debt securities portfolio

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 30 June 2013 provided in the notes below.

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Insurance operations:			
UK ^{note(i)}	82,854	80,049	84,008
US ^{note(ii)}	33,368	27,061	32,993
Asia ^{note(iii)}	20,081	18,372	20,067
Asset management operations ^{note(iv)}	1,953	1,867	1,839
Total ^{notes(v),(vi)}	138,256	127,349	138,907

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

In the table 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.

Notes

(i) UK insurance operations

	Other funds and subsidiaries					UK insurance operations		
	Scottish Amicable Insurance Fund	PAC with-profits fund	Unit-linked assets	PRIL	Other annuity and long-term business	2013 £m	2012* £m	
						30 Jun Total	30 Jun Total	31 Dec Total
S&P – AAA	385	4,381	738	2,884	337	8,725	9,222	9,200
S&P – AA+ to AA-	522	4,773	1,099	2,983	383	9,760	9,174	9,688
S&P – A+ to A-	919	11,492	1,752	6,552	820	21,535	22,276	23,000
S&P – BBB+ to BBB-	853	10,000	1,642	4,287	670	17,452	16,424	17,720
S&P – Other	257	2,847	115	324	57	3,600	2,920	3,043
	2,936	33,493	5,346	17,030	2,267	61,072	60,016	62,651
Moody's – Aaa	100	1,602	208	355	73	2,338	8,288	8,446
Moody's – Aa1 to Aa3	110	2,576	966	2,163	544	6,359	1,087	1,420
Moody's – A1 to A3	59	911	88	889	121	2,068	1,107	927
Moody's – Baa1 to Baa3	46	786	104	351	31	1,318	1,216	1,385
Moody's – Other	16	256	–	8	–	280	268	307
	331	6,131	1,366	3,766	769	12,363	11,966	12,485
Fitch	21	372	31	162	19	605	520	527
Other	317	5,741	201	2,388	167	8,814	7,547	8,345
Total debt securities	3,605	45,737	6,944	23,346	3,222	82,854	80,049	84,008

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

Where no external ratings are available, internal ratings produced by the Group's asset management operation, which are prepared on the Company's assessment of a comparable basis to external ratings, are used where possible. The £8,814 million total debt securities held at 30 June 2013 (30 June 2012: £7,547 million; 31 December 2012: £8,345 million) which are not externally rated are either internally rated or unrated. These are analysed as follows:

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Internal ratings or unrated:			
AAA to A-	3,438	2,871	3,173
BBB to B-	3,778	3,649	3,810
Below B- or unrated	1,598	1,027	1,362
Total	8,814	7,547	8,345

The majority of unrated debt security investments were held in SAIF and the PAC with-profits fund and relate to convertible debt and other investments which are not covered by ratings analysts nor have an internal rating attributed to them. Of the £2,555 million for PRIL and other annuity and long-term business investments for non-linked shareholder-backed business which are not externally rated, £nil were internally rated AAA, £503 million AA, £831 million A, £901 million BBB, £112 million BB and £208 million were internally rated B+ and below or unrated.

(ii) US insurance operations

	2013 £m		2012 £m	
	30 Jun	30 Jun	31 Dec	
Summary				
Corporate and government security and commercial loans:				
Government	4,017	2,107	4,126	
Publicly traded and SEC Rule 144A securities*	20,376	16,724	19,699	
Non-SEC Rule 144A securities	3,584	3,263	3,542	
Total	27,977	22,094	27,367	
Residential mortgage-backed securities	2,175	2,282	2,400	
Commercial mortgage-backed securities	2,591	2,129	2,639	
Other debt securities	625	556	587	
Total debt securities	33,368	27,061	32,993	

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

The following table summarises the securities detailed above by rating using S&P, Moody's, Fitch and implicit ratings of mortgage-backed securities (MBS) based on NAIC valuations:

	2013 £m		2012 £m	
	30 Jun	30 Jun	31 Dec	
S&P – AAA	148	71	187	
S&P – AA+ to AA-	6,162	4,187	6,343	
S&P – A+ to A-	8,308	6,767	7,728	
S&P – BBB+ to BBB-	10,195	8,516	10,230	
S&P – Other	1,223	954	1,173	
	26,036	20,495	25,661	
Moody's – Aaa	62	69	55	
Moody's – Aa1 to Aa3	25	17	18	
Moody's – A1 to A3	65	24	21	
Moody's – Baa1 to Baa3	36	63	56	
Moody's – Other	4	21	13	
	192	194	163	
Implicit ratings of MBS based on NAIC* valuations (see below):				
NAIC 1	2,873	2,577	2,934	
NAIC 2	252	114	207	
NAIC 3-6	268	289	321	
	3,393	2,980	3,462	
Fitch	72	220	184	
Other†	3,675	3,172	3,523	
Total debt securities	33,368	27,061	32,993	

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

† The amounts within 'Other' which are not rated by S&P, Moody's nor Fitch, nor are MBS securities using the revised regulatory ratings, have the following NAIC classifications:

	2013 £m		2012 £m	
	30 Jun	30 Jun	31 Dec	
NAIC 1	1,506	1,279	1,453	
NAIC 2	2,098	1,823	2,022	
NAIC 3-6	71	70	48	
	3,675	3,172	3,523	

For some mortgage-backed securities within Jackson, the table above includes these securities using the regulatory ratings detail issued by the NAIC. These regulatory ratings levels were established by external third parties (PIMCO for residential mortgage-backed securities and BlackRock Solutions for commercial mortgage-backed securities).

Notes on the IFRS basis results continued

Q: Debt securities portfolio continued

(iii) Asia insurance operations

	2013 £m				2012* £m	
	With-profits business	Unit-linked assets	Other business	30 Jun Total	30 Jun Total	31 Dec Total
S&P – AAA	659	12	49	720	665	785
S&P – AA+ to AA-	2,875	390	1,736	5,001	4,813	5,523
S&P – A+ to A-	2,210	196	1,241	3,647	3,490	3,272
S&P – BBB+ to BBB-	1,504	280	460	2,244	1,642	1,906
S&P – Other	402	559	995	1,956	2,424	3,132
	7,650	1,437	4,481	13,568	13,034	14,618
Moody's – Aaa	843	219	412	1,474	1,399	1,389
Moody's – Aa1 to Aa3	128	36	10	174	142	271
Moody's – A1 to A3	82	13	81	176	303	147
Moody's – Baa1 to Baa3	192	309	132	633	389	375
Moody's – Other	73	16	29	118	100	112
	1,318	593	664	2,575	2,333	2,294
Fitch	277	62	119	458	66	533
Other	1,785	581	1,114	3,480	2,939	2,622
Total debt securities	11,030	2,673	6,378	20,081	18,372	20,067

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

The following table analyses debt securities of 'Other business' which are not externally rated by S&P, Moody's or Fitch.

	2013 £m	2012* £m	
	30 Jun	30 Jun	31 Dec
Government bonds	387	164	58
Corporate bonds rated as investment grade by local external ratings agencies	542	393	428
Other	185	40	123
	1,114	597	609

(iv) Asset management operations

The debt securities are all held by M&G (Prudential Capital).

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
M&G:			
AAA to A- by S&P or Aaa to A3 rated by Moody's	1,597	1,620	1,529
Other	356	247	310
Total M&G (including Prudential Capital)	1,953	1,867	1,839

(v) Group's holdings in asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 30 June 2013 are as follows:

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
Shareholder-backed operations (excluding assets held in unit-linked funds):			
UK insurance operations ^{note(a)}	1,623	1,538	1,408
US insurance operations ^{note(b)}	5,391	4,967	5,626
Asia insurance operations ^{note(c)}	144	172	144
Other operations ^{note(d)}	584	622	566
	7,742	7,299	7,744
With-profits operations:			
UK insurance operations ^{note(a)}	5,815	5,743	5,850
Asia insurance operations ^{note(c)}	319	407	241
	6,134	6,150	6,091
Total	13,876	13,449	13,835

Notes

- (a) UK insurance operations
All of the holdings of the shareholder-backed business relates to the UK market and primarily relates to investments held by PRIL. Of the holdings of the with-profits operations, £1.615 billion (30 June 2012: £1.683 billion; 31 December 2012: £1.697 billion) relates to exposure to the US markets and with the remaining exposure being primarily to the UK market.
- (b) US insurance operations
US insurance operations' exposure to asset-backed securities at 30 June 2013 comprises:

	2013 £m	2012 £m	
	30 Jun	30 Jun	31 Dec
RMBS:			
Sub-prime (2013: 12% AAA, 6% AA)	283	213	261
Alt-A (2013: 0% AAA, 1% AA)	325	281	323
Prime including agency (2013: 0% AAA, 75% AA)	1,567	1,788	1,816
CMBS (2013: 39% AAA, 24% AA)	2,591	2,129	2,639
CDO funds (2013: 0% AAA, 25% AA), including £nil exposure to sub-prime	49	37	44
Other ABS (2013: 23% AAA, 21% AA), including £nil exposure to sub-prime	576	519	543
Total	5,391	4,967	5,626

- (c) Asia insurance operations
The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £319 million, 91 per cent (30 June 2012: 61 per cent; 31 December 2012: 63 per cent) are investment graded.
- (d) Asset management operations
Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £584 million, 80 per cent (30 June 2012: 80 per cent; 31 December 2012: 77 per cent) is graded AAA.
- (vi) Group sovereign debt exposure
The exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2013 are given within the Risk and Capital Management section of the Business review under Credit Risk.