

## Notes on the IFRS basis results continued

**P: Loans portfolio**

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

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

	2013 £m		2012* £m	
	30 Jun	30 Jun	30 Jun	31 Dec
Insurance operations:				
UK <sup>note (i)</sup>	4,313	4,265	4,303	
US <sup>note (ii)</sup>	6,691	4,168	6,235	
Asia <sup>note (iii)</sup>	1,004	1,160	1,006	
Asset management operations:				
M&G <sup>note (iv)</sup>	1,222	1,207	1,199	
<b>Total</b>	<b>13,230</b>	<b>10,800</b>	<b>12,743</b>	

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

**Notes**

- (i) UK insurance operations  
The loans of the Group's UK insurance operations comprise

	2013 £m		2012* £m	
	30 Jun	30 Jun	30 Jun	31 Dec
SAIF and PAC WPSF:				
Mortgage loans <sup>†</sup>	1,379	1,282	1,311	
Policy loans	13	18	16	
Other loans <sup>‡</sup>	1,588	1,670	1,712	
Total PAC WPSF loans	<b>2,980</b>	<b>2,970</b>	<b>3,039</b>	
Shareholder-backed:				
Mortgage loans <sup>†</sup>	1,328	1,290	1,259	
Other loans	5	5	5	
Total shareholder-backed loans	<b>1,333</b>	<b>1,295</b>	<b>1,264</b>	
<b>Total UK insurance operations loans</b>	<b>4,313</b>	<b>4,265</b>	<b>4,303</b>	

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

<sup>†</sup> The mortgage loans are collateralised by properties. By carrying value, 84 per cent of the £1,328 million held for shareholder-backed business relate to lifetime (equity release) mortgage business which have an average loan to property value of 30 per cent.

<sup>‡</sup> Other loans held by the PAC with-profits fund are all commercial loans and comprise mainly syndicated loans.

- (ii) US insurance operations  
The loans of the Group's US insurance operations comprise:

	2013 £m		2012 £m	
	30 Jun	30 Jun	30 Jun	31 Dec
Mortgage loans†	3,905	3,623	3,543	
Policy loans‡	2,786	545	2,692	
Total US insurance operations loans	6,691	4,168	6,235	

† All of the mortgage loans are commercial mortgage loans which are collateralised by properties. The property types are mainly industrial, multi-family residential, suburban office, retail and hotel. The breakdown by property type is as follows:

	2013 %		2012 %	
	30 Jun	30 Jun	30 Jun	31 Dec
Industrial	28	27	29	
Multi-family residential	28	24	25	
Office	18	19	19	
Retail	17	19	17	
Hotel	9	11	10	
	100	100	100	

The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £6.6 million (30 June 2012: £6.7 million; 31 December 2012: £6.3 million). The portfolio has a current estimated average loan to value of 62 per cent (30 June 2012: 66 per cent; 31 December 2012: 65 per cent) which provides significant cushion to withstand substantial declines in value.

At 30 June 2013, Jackson had mortgage loans with a carrying value of £49 million where the contractual terms of the agreements had been restructured. In addition to the regular impairment review afforded all loans in the portfolio, restructured loans are also reviewed for impairment. An impairment will be recorded if the expected cash flows under the newly restructured terms discounted at the original yield (the pre-structured interest rate) are below the carrying value of the loan.

‡ The policy loans are fully secured by individual life insurance policies or annuity policies. The purchase of REALIC in the second half of 2012 included policy loans which are accounted for at fair value through profit and loss. These policy loans are valued at £2,026 million and £1,842 million as at 30 June 2013 and 31 December 2012 respectively. All other policy loans are accounted for at amortised cost, less any impairment.

- (iii) Asia insurance operations  
The loans of the Group's Asia insurance operations comprise:

	2013 £m		2012 £m	
	30 Jun	30 Jun	30 Jun	31 Dec
Mortgage loans‡	54	34	43	
Policy loans‡	640	586	602	
Other loans§	310	540	361	
Total Asia insurance operations loans	1,004	1,160	1,006	

‡ The mortgage and policy loans are secured by properties and life insurance policies respectively.

§ The majority of the other loans are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

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

	2013 £m		2012 £m	
	30 Jun	30 Jun	30 Jun	31 Dec
Loans and receivables internal ratings:				
AAA	112	–	–	
A+ to A-	–	108	–	
BBB+ to BBB-	667	980	836	
BB+ to BB-	419	89	339	
B+ to B- and below	24	30	24	
Total M&G (including Prudential Capital) loans	1,222	1,207	1,199	