A Background and critical accounting policies

A1 Basis of preparation and exchange rates

Prudential plc (the Company) together with its subsidiaries (collectively, the Group or Prudential) is an international financial services group. Principal operations are in Asia, the US and the UK. Prudential offers a wide range of retail financial products and services and asset management services throughout these territories. The retail financial products and services primarily include life insurance, pensions and annuities as well as collective investment schemes.

Basis of preparation

These statements have been prepared in accordance with IFRS Standards 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 Standards may differ from IFRS Standards issued by the IASB if, at any point in time, new or amended IFRS Standards have not been endorsed by the EU. At 31 December 2016, there were no unendorsed standards effective for the two years ended 31 December 2016 affecting the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group. These statements have been prepared on a going concern basis. The parent company statement of financial position prepared in accordance with the UK Generally Accepted Accounting Practice (including Financial Reporting Standard 101 Reduced Disclosure Framework) is presented on page 309.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2015 with the exception of the adoption of the new and amended accounting standards as described in note A2.

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 2016	Average rate for 2016	Closing rate at 31 Dec 2015	Average rate for 2015
Local currency: £				
Hong Kong	9.58	10.52	11.42	11.85
Indonesia	16,647.30	18,026.11	20,317.71	20,476.93
Malaysia	5.54	5.61	6.33	5.97
Singapore	1.79	1.87	2.09	2.1
China	8.59	8.99	9.57	9.61
India	83.86	91.02	97.51	98.08
Vietnam	28,136.99	30,292.79	33,140.64	33,509.21
Thailand	44.25	47.80	53.04	52.38
US	1.24	1.35	1.47	1.53

Certain notes to the financial statements present 2015 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 exchange movement arising during 2016 recognised in other comprehensive income is:

	2016 £m	2015 £m
Asia operations†	785	(5)
US operations	853	238
Unallocated to a segment (central funds)*	(490)	(119)
	1,148	114

* The exchange rate movement unallocated to a segment mainly reflects the translation of currency borrowings that have been designated as a net investment hedge against the currency risk of the investment in Jackson.

† 2015 included the cumulative exchange loss of the Japan life business of £46 million.

A2 Adoption of new accounting pronouncements in 2016

The Group has adopted the following new accounting pronouncements which were effective in 2016:

— Annual improvements to IFRSs 2012 to 2014 cycle;
— Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38); and
— Disclosure Initiative (Amendments to IAS 1).

The adoption of these pronouncements has had no impact on these financial statements.

A Background and critical accounting policies
Continued

A3 Accounting policies

A3.1 Critical accounting policies, estimates and judgements

This note presents the critical accounting policies, accounting estimates and judgements applied in preparing the Group's consolidated financial statements. Other significant accounting policies are presented in note E1. All accounting policies are applied consistently for all years presented and normally are not subject to changes unless new accounting standards, interpretations or amendments are introduced by the IASB.

The preparation of these financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Prudential evaluates its estimates, including those related to long-term business provisioning and the fair value of assets. Below are set out those critical accounting policies the application of which requires the Group to make critical estimates and judgements. Also set out are further critical accounting policies, and other items which require the application of critical estimates and judgements.

(a) Critical accounting policies with linked critical estimates and judgements

Classification of insurance and investment contracts

IFRS 4 requires contracts written by insurers to be classified as either 'insurance' contracts or 'investment' contracts. The classification of the contract determines its accounting. Judgement is applied in the classification of these contracts.

Impacts £410 billion of reported liabilities, requiring classification.

Contracts which transfer significant insurance risk to the Group are classified as insurance contracts. Contracts that transfer financial risk to the Group but not significant insurance risk are termed investment contracts. Furthermore, some contracts, both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits that (a) are likely to be a significant portion of the total contract benefits; (b) have amount or timing contractually at the discretion of the insurer; and (c) are contractually based on asset or fund performance, as discussed in IFRS 4. Insurance contracts and investment contracts with discretionary participation features are accounted for under IFRS 4. Investment contracts without discretionary participation features are accounted for as financial instruments.

Business units	Insurance contracts and investment contracts with discretionary participation features	Investment contracts without discretionary participation features
Asia	— With-profits contracts — Non-participating term contracts — Whole life contracts — Unit-linked policies — Accident and health policies	— Minor amounts for a number of small categories of business
US	— Variable annuity contracts — Fixed annuity contracts — Life insurance contracts	— Guaranteed investment contracts (GICs) — Minor amounts of 'annuity certain' contracts
UK	— With-profits contracts — Bulk and individual annuity business — Non-participating term contracts	— Certain unit-linked savings and similar contracts

Measurement of policyholder liabilities and unallocated surplus of with-profits

Due to their significance to the Group's business, the measurement of policyholder liabilities and unallocated surplus of with-profits is a critical accounting policy. The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4 described above. Impacts £410 billion of liabilities	IFRS 4 permits the continued usage of previously applied Generally Accepted Accounting Practices (GAAP) for insurance contracts and investment contracts with discretionary participating features. A modified statutory basis of reporting was adopted by the Group on first time adoption of IFRS in 2005. This was set out in the Statement of Recommended Practice issued by Association of British Insurers (ABI SORP). An exception was for UK regulated with-profits funds which were measured under FRS 27 as discussed below. FRS 27 and the ABI SORP were withdrawn in the UK for the accounting periods beginning in or after 2015. As used in these consolidated financial statements, the terms 'FRS 27' and the 'ABI SORP' refer to the requirements of these pronouncements prior to their withdrawal. For investment contracts that do not contain discretionary participating features, IAS 39 is applied and, where the contract includes an investment management element, IAS 18, 'Revenue', applies. The policies applied in each business unit are noted below. Additional details are discussed in note C4.2
Measurement of insurance contract liabilities and investment contracts with discretionary participation features liabilities.	
Asia insurance operations	The policyholder liabilities for businesses in Asia are generally determined in accordance with methods prescribed by local GAAP adjusted to comply, where necessary, with the modified statutory basis. Refinements to the local reserving methodology are generally treated as changes in estimates, dependent on their nature. In some operations, including Taiwan, local GAAP is not an appropriate starting point and US GAAP principles are therefore applied. While the basis of valuation of liabilities in this business is in accordance with the requirements of the ABI SORP, it may differ from that determined on the modified statutory basis for UK operations with the same features.
US insurance operations	The policyholder liabilities for Jackson's conventional protection-type policies are determined under US GAAP principles with locked in assumptions for mortality, interest, policy lapses and expenses along with provisions for adverse deviations. For other policies, the policyholder liabilities include the policyholder account balance. For those investment contracts in the US with fixed and guaranteed terms, the Group uses the amortised cost model to measure the liability. The US has no investment contracts with discretionary participation features.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Measurement of policyholder liabilities and unallocated surplus of with-profits continued

UK insurance operations

The UK regulated with-profits funds' liabilities are the realistic basis liabilities in accordance with FRS 27. The realistic basis requires the value of liabilities to be calculated as:

- A with-profits benefits reserve; plus
- Future policy-related liabilities; plus
- The realistic current liabilities of the fund.

The with-profits benefits reserve is primarily based on the retrospective calculation of accumulated asset shares but is adjusted to reflect future policyholder benefits and other outgoings. Asset shares broadly reflect the policyholders' share of the with-profits fund assets attributable to their policies.

The future policy-related liabilities must include a market consistent valuation of costs of guarantees, options and smoothing, less any related charges, and this amount is determined using either a stochastic approach, hedging costs or a series of deterministic projections with attributed probabilities.

The shareholders' share of future costs of bonuses is included within the liabilities for unallocated surplus. Shareholder's share of profit is recognised in line with the distribution of bonuses to policyholders.

For the purposes of local regulations, segregated accounts are established for linked business for which policyholder benefits are wholly or partly determined by reference to specific investments or to an investment-related index.

The interest rates used in establishing policyholder benefit provisions for pension annuities in the course of payment are adjusted each year. Mortality rates used in establishing policyholder benefits are based on published mortality tables adjusted to reflect actual experience.

Measurement of investment contracts without discretionary participation features liabilities

Measured in accordance with IAS 39 to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the financial liability balance.

Incremental, directly attributable acquisition costs relating to the investment management element of these contracts are capitalised and amortised in line with the related revenue. If the contracts involve up-front charges, this income is also deferred and amortised through the income statement in line with contractual service provision in accordance with IAS 18.

Investment contracts without fixed and guaranteed terms are designated as fair value through profit or loss because the resulting liabilities are managed and their performance is evaluated on a fair value basis. Where the contract includes a surrender option its carrying value is subject to a minimum carrying value equal to its surrender value.

Further investment contracts are measured at amortised cost.

Measurement of policyholder liabilities and unallocated surplus of with-profits continued

Measurement of unallocated surplus of with-profits funds	Represents the excess of assets over policyholder liabilities for the Group's with-profits funds in the UK, Hong Kong, Malaysia and Singapore that have yet to be appropriated between policyholders and shareholders. The unallocated surplus is recorded wholly as a liability with no allocation to equity. The annual excess (shortfall) of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders and shareholders, is transferred to (from) the unallocated surplus each year through a charge (credit) to the income statement. The balance retained in the unallocated surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated surplus is determined after full provision for deferred tax on unrealised appreciation on investments.
Liability adequacy test	The Group performs adequacy testing on its insurance liabilities to ensure that the carrying amounts (net of related deferred acquisition costs) and, where relevant, present value of acquired in-force business is sufficient to cover current estimates of future cash flows. Any deficiency is immediately charged to the income statement. The practical application for Jackson is in the context of the deferred acquisition cost asset and the liabilities for Jackson's insurance contracts being determined in accordance with US GAAP. The liabilities include those in respect of the separate accounts (which reflect separate account assets), policyholder account values, and guarantees measured as described in note C4.2. Under US GAAP, most of Jackson's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with expected gross profits. Recoverability of the deferred acquisition costs in the balance sheet is tested against the projected value of future profits using current estimates and therefore no additional liability adequacy test is required by IFRS 4. The DAC recoverability test is performed in line with US GAAP requirements which in practice is at a grouped level of those contracts managed together.

(b) Further critical accounting policies

Measurement and presentation of derivatives and debt securities of US insurance operations

Jackson holds a number of derivative instruments and debt securities. The selection of the accounting approach for these items significantly affects the volatility of IFRS profit before tax. £7,616 million of US income statement investment return arises from such derivatives and debt securities	For derivative instruments of Jackson that are entered into to mitigate economic exposures, the Group has considered whether it is appropriate to undertake the necessary operational changes to qualify for hedge accounting so as to achieve matching of value movements in hedging instruments and hedged items in the performance statements. The key factors considered in this assessment were the complexity of asset and liability matching in Jackson's product range and the difficulty and cost of applying the macro hedge provisions under IAS 39 (which are more suited to banking arrangements) to Jackson's derivative book. The Group has decided that, except for occasional circumstances, applying hedge accounting using IAS 39 to derivative instruments held by Jackson would not improve the relevance or reliability of the financial statements to such an extent that would justify the difficulty and cost of applying these provisions. As a result of this decision, the total income statement results are more volatile as the movements in the fair value of Jackson's derivatives are reflected within it. This volatility is reflected in the level of short-term fluctuations in investment returns, as shown in notes B1.1 and B1.2. Under IAS 39, unless carried at amortised cost (subject to impairment provisions where appropriate) under the held-to-maturity category, debt securities are also carried at fair value. The Group has chosen not to classify any financial assets as held-to-maturity. Debt securities of Jackson are designated as available-for-sale with value movements, unless impaired, being recorded as movements within other comprehensive income. Impairments are recorded in the income statement.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Presentation of results before tax

Profit before tax is a significant IFRS income statement item. The Group has chosen to present a measure of profit before tax attributable to shareholders which distinguishes between tax attributable to policyholders and unallocated surplus and tax borne by shareholders, to support understanding of the performance of the Group.

Profit before tax attributable to shareholders is £2,275 million and compares to profit before tax of £3,212 million.

The total tax charge for the Group reflects tax that, in addition to relating to shareholders' profits, is also attributable to policyholders and unallocated surplus of with-profits funds and unit-linked policies. Further detail is provided in note B5. Reported profit before the total tax charge is not representative of pre-tax profits attributable to shareholders. Accordingly, in order to provide a measure of pre-tax profits attributable to shareholders the Group has chosen to adopt an income statement presentation of the tax charge and pre-tax results that distinguishes between policyholder and shareholder components.

Segmental analysis of results and earnings attributable to shareholders

The Group uses operating profit based on longer-term investment returns as the segmental measure of its results.

Total segmental operating profit is £4,972 million as shown in note B1.2.

The basis of calculation of operating profit is disclosed in note B1.3.

For shareholder-backed business, with the exception of debt securities held by Jackson and assets classified as loans and receivables at amortised cost, all financial investments and investment property are designated as assets at fair value through profit or loss. Short-term fluctuations in fair value affect the result for the year and the Group provides additional analysis of results before and after the effects of short-term fluctuations in investment returns, together with other items that are of a short-term, volatile or one-off nature. The effects of short-term fluctuations include asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.2.

Short-term fluctuations in investment returns on assets held by with-profits funds in the UK, Hong Kong, Malaysia and Singapore, do not affect directly reported shareholder results. This is because (i) the unallocated surplus of with-profits funds is accounted for as a liability and (ii) excess or deficits of income and expenditure of the funds over the required surplus for distribution are transferred to or from unallocated surplus.

(c) Further critical estimates and judgements

Deferred acquisition costs for insurance contracts

The Group applies judgement and makes estimates in assessing whether adjustments to the carrying value or amortisation profile of deferred acquisition cost assets are necessary.

Except for acquisition costs of with-profits contracts of the UK regulated with-profits funds, which are accounted for under FRS 27, costs of acquiring new insurance business are accounted for in a way that is consistent with the principles of the ABI SORP with deferral and amortisation against margins in future revenues on the related insurance policies. In general, this deferral is shown by an explicit carrying value in the balance sheet. However, in some Asia operations the deferral is implicit through the reserving methodology. The recoverability of the deferred acquisition costs is measured and are deemed impaired if the projected margins are less than the carrying value. To the extent that the future margins differ from those anticipated, then an adjustment to the carrying value will be necessary.

Deferred acquisition costs for insurance contracts continued

Costs of acquiring new insurance business, principally commissions, marketing and advertising and certain other costs associated with policy insurance and underwriting that are not reimbursed by policy charges, are specifically identified and capitalised as part of deferred acquisition costs. £9,178 billion of deferred acquisition costs as per note C5(b).	
Asia insurance operations	For those territories applying US GAAP to insurance assets and liabilities, as permitted by the ABI SORP, principles similar to those set out in the US insurance operations paragraph below are applied to the deferral and amortisation of acquisition costs. For other territories in Asia, the general principles of the ABI SORP are applied with, as described above, deferral of acquisition costs being either explicit or implicit through the reserving basis.
US insurance operations	The Group's US insurance operations apply FAS ASU 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts' and capitalises only those incremental costs directly relating to successfully acquiring a contract. For term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For fixed and fixed index annuity and interest-sensitive life business, the key assumption is the long-term spread between the earned rate on investments and the rate credited to policyholders, which is based on an annual spread analysis. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges), all of which are based on a combination of Jackson's actual industry experience and future expectations. A detailed analysis of actual mortality, lapse and expenses experience is performed using internally developed experience studies. For US variable annuity business, a key assumption is the long-term investment return from the separate accounts, which is determined using a mean reversion methodology. Under the mean reversion technique applied by Jackson, the projected level of return for each of the next five years is adjusted from period to period so that in combination with the actual rates of return for the preceding three years, including the current period, the assumed long-term annual return (gross of asset management fees and other charges to policyholders, but net of external fund management fees) is realised on average over the entire eight-year period. Projected returns after the mean reversion period revert back to the long-term investment return. For further details, refer to note C7.3(iv). However, to ensure that the methodology does not over anticipate a reversion to the long-term level of returns following adverse markets, the mean reversion technique has a cap and floor feature whereby the projected returns in each of the next five years can be no more than 15 per cent per annum and no less than 0 per cent per annum (both gross of asset management fees and other charges to policyholders, but net of external fund management fees) in each year. Jackson uses shadow accounting to make adjustments to the deferred acquisition costs which are recognised directly in other comprehensive income. To the extent that recognition of unrealised gains or losses on available-for-sale securities causes adjustments to the carrying value and amortisation patterns of deferred acquisition costs and deferred income, these adjustments are recognised in other comprehensive income to be consistent with the treatment of the gains or losses on the securities. More precisely, shadow DAC adjustments reflect the change in deferred acquisition costs that would have arisen if the assets held in the statement of financial position had been sold, crystallising unrealised gains or losses, and the proceeds reinvested at the yields currently available in the market.

A3 Accounting policies continued

A3.1 Critical accounting policies, estimates and judgements continued

Deferred acquisition costs for insurance contracts continued

UK insurance operations	For UK regulated with-profits funds where FRS 27 is applied, the basis of setting liabilities is such that it would be inappropriate for acquisition costs to be deferred, therefore these costs are expensed as incurred. The majority of the UK shareholder-backed business is individual and group annuity business where the deferral of acquisition costs is negligible.

Financial investments – Valuation

Financial Investments held at fair value represent £349.8 billion of the Group's total assets.

The Group applies valuation techniques to determine the balance recognised for financial investments held at fair value.

Financial investments held at amortised cost represent £12.2 billion of the Group's total assets.

The Group holds the majority of its financial investments at fair value (either through profit and loss or available for sale). Financial Investments held at amortised cost primarily comprise of Loans and Deposits.

Determination of fair value

The Group uses current bid prices to value its investments with quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties as described further in note C3.1.

If the market for a financial investment of the Group is not active, the fair value is determined by using valuation techniques. The Group establishes fair value for these financial investments by using quotations from independent third parties, such as brokers or pricing services, or by using internally developed pricing models. Priority is given to publicly available prices from independent sources when available, but overall the source of pricing and/or the valuation technique 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 valuation techniques include the use of 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 and 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 financial investments.

Financial investments measured at fair value are classified into a three level hierarchy as described in note C3.1(b).

Determination of impaired value

In estimating the present value of future cash flows for determining the impaired value of instruments held at amortised cost, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

In estimating any required impairment for US residential mortgage-backed and other asset-backed securities held as available for sale, the expected value of future cash flows is determined using a model, the key assumptions of which include how much of the currently delinquent loans will eventually default and assumed loss severity.

Financial investments – Determining impairment in relation to financial assets

The Group applies estimates and assumptions in determining when an impairment in value has occurred on financial investments classified as 'available-for-sale' or 'at amortised cost'.

If a loss event that will have a detrimental effect on cash flows is identified, an impairment loss is recognised in the income statement. The loss recognised is determined as the difference between the book cost and the fair value of the relevant impaired assets. This loss comprises the effect of the expected loss of contractual cash flows and any additional market-price-driven temporary reductions in values.

Affects £52.8 billion of assets.

Available-for-sale securities

The Group's review of fair value involves several criteria, including economic conditions, credit loss experience, other issuer-specific developments and future cash flows. These assessments are based on the best available information at the time. Factors such as market liquidity, the widening of bid/ask spreads and a change in cash flow assumptions can contribute to future price volatility. If actual experience differs negatively from the assumptions and other considerations used in the consolidated financial statements, unrealised losses currently in equity may be recognised in the income statement in future periods. Additional details on the impairments of the available-for-sale securities of Jackson are described in note C3.2(c).

The majority of the US insurance operation's debt securities portfolio are accounted for on an available-for-sale basis. The consideration of evidence of impairment requires management's judgement. In making this determination a range of market and industry indicators are considered including the severity and duration of the decline in fair value and the financial condition and prospects of the issuer.

For US residential mortgage-backed and other asset-backed securities, all of which are classified as available-for-sale, impairment is estimated using a model of expected future cash flows. Key assumptions used in the model include assumptions about how much of the currently delinquent loans will eventually default and assumed loss severity.

Assets held at amortised cost

Assets held at amortised cost are subject to impairment testing where appropriate under IFRS requirements by comparing estimated future cash flows to the carrying value of the asset. In estimating future cash flows, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred. In estimating future cash flows, for the purposes of impairment testing for assets held at amortised cost, the Group looks at the expected cash flows of the assets and applies historical loss experience of assets with similar credit risks that has been adjusted for conditions in the historical loss experience which no longer exist, or for conditions that are expected to arise. The estimated future cash flows are discounted using the financial asset's original or variable effective interest rate and exclude credit losses that have not yet been incurred.

Reversal of impairment losses

If, in subsequent periods, an impaired debt security held on an available-for-sale basis or an impaired loan or receivable recovers in value (in part or in full), and this recovery can be objectively related to an event occurring after the impairment, then the previously recognised impairment loss is reversed through the income statement (in part or in full).

Intangible assets – Carrying value of distribution rights

The Group applies judgement when considering whether indicators of impairment exist for intangible assets representing distribution rights.

Affects £1.5 billion of assets.

Distribution rights relate to fees paid under bancassurance partnership arrangements for bank distribution of products for the term of the contractual agreement with the bank partner. Distribution rights impairment testing is conducted when there is an indication of impairment.

The Group monitors a number of internal and external factors, including indications that the financial performance of the arrangement is likely to be worse than originally expected and changes in relevant legislation and regulatory requirements that could impact the Group's ability to continue to sell new business through the bancassurance channel, to assess for indications of impairment.

A3 Accounting policies continued

A3.2 New accounting pronouncements not yet effective

The following standards, interpretations and amendments have been issued but are not yet effective in 2016, including those which have not yet been adopted in the EU. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact upon the Group's financial statements are discussed.

Accounting pronouncements endorsed by the EU but not yet effective

IFRS 15, 'Revenue from Contracts with Customers'

This standard effective for annual periods beginning on or after 1 January 2018, provides a single framework to recognise revenue for contacts with different characteristics and overrides the framework provided for such contracts in other standards. The contracts excluded from the scope of this standard include:

— Lease contracts within the scope of IAS 17 'Leases';
— Insurance contracts within the scope of IFRS 4, 'Insurance Contracts'; and
— Financial instruments within the scope of IAS 39 'Financial Instruments'.

As a result of the scope exclusion above, this standard is of particular relevance only to the revenue recognition of the Group's asset management contracts and the measurement of the Group's investment contracts that do not contain discretionary participating features where the contracts include an investment management element. The Group does not expect the standard to have a significant impact on the Group's financial statements.

IFRS 9, 'Financial instruments: Classification and measurement'

In July 2014, the IASB published a complete version of IFRS 9 with the exception of macro hedge accounting. The standard becomes mandatorily effective for the annual periods beginning on or after 1 January 2018, with early application permitted and transitional rules apply.

This standard replaces the existing IAS 39, 'Financial Instruments – Recognition and Measurement', and will affect:

— The classification and the measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified under one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on their contractual cash flow characteristics and/or the business model in which they are held. The existing amortised cost measurement for financial liabilities is largely maintained under IFRS 9 but for financial liabilities designated at FVTPL, changes in fair value due to changes in entity's own credit risk, required by IFRS 13, are to be recognised in other comprehensive income;
— The calculation of the impairment charge relevant for financial assets held at amortised cost or FVOCI. A new impairment model based on an expected credit loss approach replaces the existing IAS 39 incurred loss impairment model; and
— The hedge accounting requirements which are more closely aligned with the risk management activities of the company.

In September 2016, the IASB published Amendments to IFRS 4, 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary consequences of the different effective dates of IFRS 9 and the new insurance contracts standard. The amendments include an optional temporary exemption from applying IFRS 9 that is available to companies whose predominant activity is to issue insurance contracts. Such a deferral will be available until the new Insurance Contracts Standard (IFRS 17) comes into effect (but it cannot be used after 1 January 2021). The Group meets the criteria and intends to take advantage of the temporary exemption afforded by the amendments to IFRS 4 from applying IFRS 9 until IFRS 17 comes into effect, which is expected to be in 2021. The amendments to IFRS 4 are not yet endorsed by the EU. However, the European Financial Reporting Advisory Group (EFRAG) has provided advice to the European Commission recommending endorsement.

The Group will be assessing the impact of this IFRS 9 in conjunction with the requirements of the IASB's proposals for insurance contracts accounting as they are developed to a final standard. The adoption of the requirements of IFRS 9 may result in reclassification of certain of the Group's financial assets and hence lead to a change in the measurement of these instruments or the performance reporting of value movements. In addition, for any investments classified as FVOCI, as noted above, the impairment provisioning approach is altered from the current IAS 39 approach. The Group does not currently apply hedge accounting for most of its derivative programmes but will reconsider its approach in light of new requirements under the standard on adoption.

Accounting pronouncements not yet endorsed by the EU

IFRS 16, 'Leases'

In January 2016, the IASB published a new standard, IFRS 16 'Leases' effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessee accounting, this has the effect of bringing most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. Lessor accounting however remains largely unchanged from IAS 17.

This new standard is of particular relevance to the operating leases for major assets where Prudential is a lessee, which relate to leases of properties occupied by the Group's businesses. Under IFRS 16, these leases will be brought on to the statement of financial position with a 'right to use' asset being established and a corresponding liability representing the obligation to make lease payments. The current rental accrual charge in the profit and loss account will be replaced with a depreciation charge for the 'right to use' asset and the interest expense on the lease liability. The Group is currently assessing the impact of this new standard.

Amendments to IAS 12: Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes clarifying the requirements on recognition of deferred tax assets for unrealised losses on a debt instrument measured at fair value. The amendments are effective from 1 January 2017. The Group has assessed the requirements of these amendments and concluded that they do not require any changes to the Group's accounting policy for deferred tax.

Other new accounting pronouncements

In addition to the above, the Group is also assessing the impact of the following new accounting pronouncements but are not expecting them to have a significant impact on the Group's financial statements:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative, issued in January 2016 and effective from 1 January 2017;
- Amendments to IFRS 2: Classification and measurement of share-based payment transactions, issued in June 2016 and effective from 1 January 2018;
- Annual Improvements to IFRS Standards 2014-2016 Cycle, issued in December 2016 and effective from 1 January 2017/1 January 2018;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016 and effective from 1 January 2018; and
- Amendments to IAS 40, Transfers of Investment Property, issued in December 2016 and effective from 1 January 2018.