




**PRUDENTIAL**



# Adding more to life

Prudential plc Annual Report 2017

# Contents

 The Directors' Report of Prudential plc for the year ended 31 December 2017 is set out on pages 2 to 8, 82 to 122 and 362 to 407, and includes the sections of the Annual Report referred to in these pages.

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By helping to take the financial risk out of life's big decisions, Prudential creates long-term value for our customers, our shareholders and the communities we serve.

**Adding more to life.**

## Our year in numbers

Summary financials	2017	2016	Change on actual exchange rate basis <sup>6</sup>	Change on constant exchange rate basis <sup>6</sup>
IFRS operating profit based on longer-term investment returns	<b>£4,699m</b>	£4,256m	10%	6%
Underlying free surplus generated <sup>1,2</sup>	<b>£3,640m</b>	£3,566m	2%	(1)%
Life new business profit	<b>£3,616m</b>	£3,088m	17%	12%
IFRS profit after tax <sup>3</sup>	<b>£2,390m</b>	£1,921m	24%	21%
Net cash remittances from business units	<b>£1,788m</b>	£1,718m	4%	–
IFRS shareholders' funds	<b>£16.1bn</b>	£14.7bn	10%	
EEV shareholders' funds	<b>£44.7bn</b>	£39.0bn	15%	
Group Solvency II capital surplus <sup>4,5</sup>	<b>£13.3bn</b>	£12.5bn	6%	

Full-year ordinary dividend

**47 pence**

(2016: 43.5 pence)

**+8%**

Employees volunteered

**96,493 hours**

### Notes

- 1** Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results.
- 2** The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the IFRS financial statements, as a result Prudential Capital is not included in underlying free surplus generated.

- 3** IFRS profit after tax reflects the combined effects of operating results determined on the basis of longer-term investment returns, together with negative short-term investment variances, which in 2017 largely arose within Jackson, profit (loss) on disposal of businesses, amortisation of acquisition accounting adjustments and the total tax charge for the year.
- 4** The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation

of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

- 5** Before allowing for second interim ordinary dividend.
- 6** Further information on actual and constant exchange rates basis is set out in note A1 of the IFRS financial statements.

# A customer-focused Group delivering long-term sustainable returns

I am pleased to present Prudential's 2017 Annual Report. Prudential has produced another well balanced performance while making a number of important changes to our business. Alongside our 2017 results, the Board announced its intention to demerge M&G Prudential, our UK and European business, from the Group.

The Board has always considered it important to create optionality within our corporate structure. After a rigorous review, which considered all options including the status quo, we have concluded that it is in the best interest of the business to operate as two separately listed companies, able to focus on their distinct strategic priorities in their chosen geographies. This will unlock the potential for enhanced value creation in both businesses, as each benefits from strategic focus and capital allocation policies aligned to its market opportunity. On completion of the demerger, shareholders will hold interests in both companies.

M&G Prudential is one of the leading retirement and savings businesses in the UK and Europe. As a standalone entity, it will continue to drive its transformation into a more capital-efficient and customer-focused business, targeting growing customer demand for comprehensive financial solutions in these markets. In line with this strategy M&G Prudential agreed in March 2018 to the partial sale of its shareholder annuity portfolio. As with other changes to the business, our priority is to ensure these customers are treated fairly.

The international Group will combine the exciting growth potential of our Asia, US and Africa businesses, meeting the growing needs of customers in these markets. These businesses will form a leading international Group focused on the largest insurance markets globally with significant growth prospects.

Both independent groups will be headquartered in London, which we regard as the pre-eminent city from which to operate global financial service businesses, and both are expected to meet the criteria for inclusion in the FTSE100.

The Board believes this demerger is in the interests of all our stakeholders. Customers will receive greater focus, employees will be more closely aligned with their businesses and we believe shareholders will benefit from investments in both companies.

Our strong full year results demonstrate the positive momentum across all our businesses.

## **Our impact**

Throughout the demerger process, we will continue to hold ourselves to the highest standards to ensure that both businesses deliver long-term sustainable returns.

As ever, our customers remain our key priority. We help customers make plans for the future by reducing the risks they face. Whether they are saving for the family, protecting their health or managing their retirement, Prudential enables them to manage uncertainty. We also turn their capital into a source of stable investment in companies and countries across the world, driving economic growth and improving infrastructure. Changing the structure of our business will not reduce our commitment to delivering on these promises.

Our customer focus means actively engaging with the critical issues facing both our businesses and the wider world. In 2017, the Group published its first environmental, social and governance (ESG) report, demonstrating how we approach all our stakeholders, from our suppliers and employees to the wider communities in which we operate, with the same sense of responsibility and commitment that we apply to our customers, and how we engage with investors and regulators around the risks and impact of issues such as climate change. We will publish our next ESG report in May 2018.

## **Performance and dividend**

We have delivered another broad-based operating and financial performance, driven by all of our business units and in particular by our growing Asia businesses.

In view of this performance and our confidence about the outlook for the Group, the Board has decided to increase the full-year ordinary dividend by 8 per cent to 47 pence per share. In line with this, the Directors have approved a second interim ordinary dividend of 32.5 pence per share (2016: 30.57 pence per share).

## **Governance**

All our stakeholders benefit from the Board taking an active role in the development and execution of our strategy, ensuring it is fit for today and for the future. The Board's decision to separate M&G Prudential was not taken lightly and we took significant time to consider the benefits for shareholders and customers and the impact on our wider stakeholders. We took an important step towards this decision in August 2017 when we announced our intention to merge our UK asset manager, M&G, and our UK and Europe life insurance business to form M&G Prudential. The combined business now manages £351 billion in assets<sup>1</sup> for more than seven million customers and is well placed to thrive as an independent business.

The Board now has a vital role to play stewarding the separation process, working with management and ensuring that every part of the Group continues to deliver for customers. This task makes ensuring a strong and diverse Board more important than ever. There were a number of changes to the Board in 2017 in both non-executive and executive roles, reflecting the strength of our succession planning.

This has enabled us to recruit high-calibre candidates with a diverse set of skills and expertise and ensured continuity while minimising disruption. I would like to thank Ann Godbehere, Tony Wilkey and Penny James for their significant contribution during their tenures, and to welcome Mark FitzPatrick, Tom Watjen and James Turner to the Board. The global market for talent continues to be highly competitive and our priority remains to ensure that we have the best possible executive and non-executive team. We have committed to focusing particularly on strengthening gender diversity, alongside diversity of skills, in our succession planning in 2018.

Ensuring the effectiveness of the Board also remains a priority for me as Chairman. An external independent evaluation was conducted at the end of 2017 to consider how the Board can improve and work together more effectively. I was pleased that the review concluded that the Board's strengths included creating a collegiate and constructive environment, effective use of time and materials, and strong risk and control oversight.

### Our shareholders and other stakeholders

A well governed company engages regularly and effectively with its shareholders, responding to their challenges and taking their ideas and concerns seriously. At Prudential, we have open and constructive dialogue with investors via a regular and comprehensive programme of engagement. I have personally found this active engagement hugely valuable and fully commit to continuing this dialogue. Shareholder input is vital to ensuring well informed Board discussions.

Policy and regulatory change affects both our short-term performance and long-term strategy. Prudential places great importance on having an effective relationship with the regulators and policymakers who supervise us and our markets. We engage regularly and constructively with all our regulators and supervisors, as well as with governments around the world. Throughout the demerger process, the Board will continue to engage with all our stakeholders to ensure that they are kept informed and their input is sought.

### Our people

The success of Prudential is rooted in the commitment, creativity and drive of our teams in each of our markets and businesses. The structural changes we are proposing will only succeed because of the hard work of our people and we will support them through these changes.

We are committed to ensuring that Prudential's people represent the communities we serve and we therefore take a strategic approach to diversity and inclusion at every level of our business. While this is an ongoing journey, we firmly believe diversity both adds strength and ensures a wide range of perspectives. We aim to encourage an inclusive working environment where we develop our talent, reward great performance and recognise our differences in order to continue to deliver outstanding results for our customers, shareholders and communities. As part of our commitment to diversity, Prudential has signed the HM Treasury Women in Finance Charter, which aims to increase the number of women working in senior management in financial services companies, and we have set a gender diversity target of 30 per cent females in senior management by the end of 2021.

### Our communities

Prudential provides important benefits to society through our core business activities. In addition to these benefits, Prudential is a responsible business that invests in our local communities, which we strongly believe is in the interests of all our stakeholders.

Our community investment work focuses particularly on financial education, disaster preparedness and social inclusion. The Cha-Ching programme, our financial education platform aimed at primary school-aged children, is now in its seventh year. It has expanded from its origins in Asia to each of the four continents in which the Group does business, and in all of the markets where it has been launched it has been extremely positively received, with strong feedback from parents, teachers, children and political stakeholders. The Prudence Foundation's Safe Steps is a first-of-its-kind pan-Asian public service initiative to enhance disaster preparedness and awareness through the dissemination of educational survival tips for natural disasters, with a potential reach of 200 million people. And in the UK, over the past five years Prudential RideLondon has raised over £50 million for charity and become one of the largest fundraising events in the country. In 2017 alone, more than 800 charities benefited from riders' fundraising.

The direct contribution made by our people to the communities in which they live and participate makes me particularly proud. In 2017, Prudential colleagues volunteered 96,493 hours of their time. I support this activity personally through our flagship international volunteering programme, the Chairman's Challenge, and I am delighted by the continuing success of the programme, with the number of volunteers increasing year-on-year. From its launch in 2006, when 2,603 employees signed up, volunteer numbers have more than trebled. Last year 8,500 colleagues around the world – over 30 per cent of our workforce – took part, volunteering more than 35,000 hours to support 30 projects.

### Conclusion

Prudential has announced a significant change that we believe will secure the future success of both M&G Prudential and our international business. This decision has been made from a position of strength, with a well balanced 2017 performance driven by every part of our business. The Board has confidence in the creation of two valuable businesses that will continue to deliver for our shareholders, customers and other stakeholders.



**Paul Manduca**  
Chairman

#### Note

1 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.

# Strong performance and continued profitable growth

I am pleased to report that over 2017 our clear, consistent strategy, high-quality products and improving capabilities have enabled us to meet the needs of customers around the world better than ever before.

Our purpose is to help remove uncertainty from life's big events. Whether that's starting a family, saving for a child's education or planning for retirement, we provide our customers with financial peace of mind, enabling them to face the future with greater confidence. We also invest our customers' money actively in the real economy, helping not only to improve the lives of individuals and families, but also to build stronger communities and drive the cycle of growth.

Our strategy is aligned to structural trends: the savings and protection needs of the fast-growing middle class in Asia, the retirement income needs of the approximately 75 million baby boomers in the United States<sup>1</sup> and the growing demand for managed savings solutions among the ageing populations of the United Kingdom and Europe. These trends are sustained, and we remain focused on the opportunities they present.

We have continued to develop our products and our capabilities in order to improve the way we meet customers' needs. We are creating new, better and more personalised products, and we have a flexible, collaborative approach to incorporating the best digital technologies into our operations, while also leveraging our global scale to share new insights across our businesses at pace. The result is constant improvement in the way we serve our customers, providing value both to them and to our shareholders.

In March 2018 the Group announced its intention to demerge its UK and Europe businesses ('M&G Prudential') from Prudential plc, resulting in two separately listed companies, with different investment characteristics and opportunities. Our businesses share common heritage, values and purpose. Looking forward, we believe we will be better able to focus on meeting our customers' rapidly evolving needs and to deliver long-term value to investors as two separate businesses. On completion of the demerger, shareholders will hold interests in both Prudential plc and M&G Prudential.

In line with its strategy to transition towards a more capital efficient, de-risked business model, M&G Prudential agreed in March 2018 to the sale of £12.0 billion<sup>20</sup> of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion<sup>20</sup> of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. The capital benefit of this transaction will be retained within the Group to support the UK demerger process.

In preparation for the UK demerger process, and to align the ownership of the Group's businesses with their operating structures, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

### Our financial performance

We have built on our good start to 2017 through disciplined execution of our strategy, again led by our businesses in Asia.

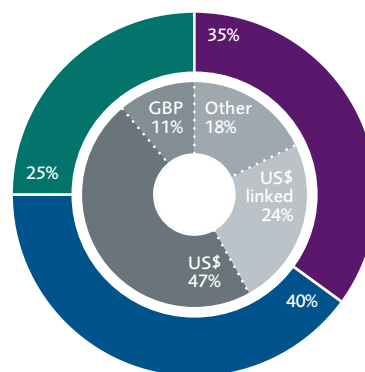
We announce today the achievement of our remaining 2017 objectives, which were set in December 2013. During the first half of 2017, we exceeded the Group objective of underlying free surplus generation of at least £10 billion from the beginning of 2014 to the end of 2017. By the end of 2017 we had generated £12.8 billion over this four year period. Our Asia businesses delivered growth in IFRS operating profit based on longer-term investment returns<sup>2</sup> ('IFRS operating profit') at a compound average rate of 16 per cent<sup>3</sup> over the period 2012 to 2017, and underlying free surplus generation of £1,078 million<sup>3</sup> for the full year 2017. This is testament to the strength, scale and diversity of our Asia platform, validates our focus on recurring premium health and protection business and

demonstrates the strength of our operational execution. It also marks the third set of objectives that we have successfully achieved within the last 10 years.

During 2017 we combined our UK and European life and asset management businesses to form M&G Prudential, which delivered record levels of external asset management net inflows of £17.3 billion in 2017. This contributed to combined assets under management<sup>4</sup> of £351 billion at 31 December 2017.

As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate basis) to show the underlying business trends in a period of currency movement.

**IFRS operating profit\* by business and currency**  
% 2017



\* Segmental earnings of key businesses and excludes other income and expenditure.

## Adding more to life: Helen, Prudential Hong Kong

'I've always considered good health to be very important to my life. It's great that Prudential offered me access to myDNA Pro, which has given me key insights into my genetic risk profiles.

The first step was to do a DNA test, which showed my body to be sensitive to carbohydrate and fat intake due to my genetic makeup. Based on these findings, the personal health coach I chose as part of the programme helped me set a weight loss goal and plan to maintain a healthier lifestyle, including changing my dietary habits and ensuring I incorporated more cardio workouts into my exercise regime. With these, I have been able to maintain a healthy weight and am now in an overall better shape.

'I've been very impressed by the genetics-based recommendations and level of personal guidance provided by the programme. Huge thanks to my coach and Prudential for all the support and motivation.'



Group IFRS operating profit was 6 per cent<sup>5</sup> higher at £4,699 million (up 10 per cent on an actual exchange rate basis). IFRS operating profit from our Asia life insurance and asset management businesses grew by 15 per cent<sup>5</sup>, reflecting continued broad-based business momentum across the region, with double-digit<sup>5</sup> growth in eight out of 12 life insurance markets. In the US, Jackson's total IFRS operating profit increased by 3 per cent<sup>5</sup>, due mainly to growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK and Europe, M&G Prudential's total IFRS operating profit was 10 per cent higher than the prior year, reflecting 6 per cent growth in the IFRS operating profit generated from insurance business and 18 per cent growth in that generated from asset management.

The Group's capital generation is underpinned by our large and growing in-force business portfolio, and focus on profitable, short-payback business. Overall underlying free surplus generation<sup>6</sup> decreased by 1 per cent<sup>5</sup> to £3,640 million, with higher contributions in Asia and the UK and Europe, offset by higher restructuring costs and a lower contribution from our US business. 2016 benefited from the impact of a US transaction to enhance local capital efficiency that was not repeated in 2017.

Cash remittances to the Group increased to £1,788 million, with Asia the largest contributor<sup>7</sup> at £645 million. The Group's overall performance supported an 8 per cent increase in the 2017 full year ordinary dividend to 47 pence per share.

The Group remains robustly capitalised, with a 2017 year-end Solvency II cover ratio<sup>8,9</sup> of 202 per cent. Over the period, IFRS shareholders' funds increased by 10 per cent to £16.1 billion, reflecting profit after tax of £2,390 million (2016: £1,921 million on an actual exchange rate basis) net of other movements that included dividend payments to shareholders of £1,159 million and adverse foreign exchange movements of £470 million. EEV shareholders' funds increased by 15 per cent to £44.7 billion, equivalent to 1,728 pence per share<sup>10,11</sup>.

New business profit<sup>11</sup> increased by 12 per cent<sup>5</sup> to £3,616 million (up 17 per cent on an actual exchange rate basis), driven by improved business mix in Asia, higher UK volumes and the favourable effect of tax reform in the US.

In Asia, we continue to develop our capabilities and reach, which build scale and enhance quality. Our strategic emphasis on increasing sales from health and protection business has contributed to a 12 per cent<sup>5</sup> increase in new business profit in Asia. Our asset management

business, Eastspring Investments, has again seen growth, with its total assets under management up 18 per cent<sup>12</sup> to £138.9 billion and IFRS operating profit also up 18 per cent<sup>5</sup> to £176 million.

In the US we remain focused on meeting the retirement income needs of the growing generation of baby boomer retirees and expanding our operations into the large asset pools of the fee-based advisory market. Although the evolving regulatory environment continues to cause industry sales disruption, in 2017 Jackson delivered positive separate account net inflows of £3.5 billion, with separate account assets reaching £130.5 billion, an increase of 19 per cent<sup>5</sup>. In December 2017 the US enacted a major tax reform package, including a reduction in the corporate income tax rate from 35 per cent to 21 per cent effective from 1 January 2018. While this led to a £445 million charge in the income statement from re-measuring deferred tax balances on the IFRS balance sheet, we expect the tax changes to be positive in the long term. The US effective tax rate is expected to fall from the current rate of circa 28 per cent to circa 18 per cent in the future.

## Group Chief Executive's report - Mike Wells continued

In the UK, both our UK life and asset management businesses performed well in 2017. PruFund new business APE sales increased 36 per cent to £1.2 billion, while M&G saw record net inflows of £17.3 billion from external clients. Overall M&G Prudential assets under management<sup>4</sup> reached £351 billion, up from £311 billion at 31 December 2016.

Our financial KPIs continue to reflect the outcome of the Group's strategy. Our Asia life businesses are driven by growth in our recurring premium base and focus on health and protection business, and elsewhere we are benefiting from our prioritisation of fee-generating products across our Asia asset management, US variable annuity and UK and European asset management activities.

### A successful strategy

Our performance is based on our clear, consistent and successful strategy, which is focused on long-term opportunities arising from structural trends in our markets around the world.

In Asia, the growth of the middle class is creating significant and long-term demand for the products we offer. The working-age population in the region is growing by a million people a month, and by 2030 is expected to reach 2.5 billion<sup>13</sup>, while 65 per cent of Asian private financial wealth is held in cash<sup>14</sup> and at the same time, that wealth is growing by US\$4 trillion a year<sup>14</sup>.

The growing and increasingly wealthy middle classes of the region are under-protected. In Asia, out-of-pocket healthcare spend makes up 42 per cent of total health expenditure<sup>15</sup>, compared with just 12 per cent in the US and 9 per cent in the UK. While in a more developed market such as the UK insurance penetration is equivalent to 7.5 per cent<sup>16</sup> of GDP, in Asia that figure is just 2.4 per cent<sup>16</sup>, giving an idea of the scale of the growth opportunity that remains in our Asian markets. The gap between the insurance cover of people in the region and what they need in order to maintain the living standards of their families has been estimated at circa £35 trillion<sup>17</sup>. We help to bridge that gap with a broad range of solutions across 14 markets in the region. We are in the top three in nine of our markets in Asia<sup>18</sup>, and we have 15 million life customers, with access to total markets of more than 3.3 billion people.

The United States is the world's largest retirement market, with approximately 40 million Americans reaching retirement age over the next decade alone, and these consumers have a need for investment options through which they can grow their savings while at the same time protecting their income. This is creating demand for our variable annuity products, which are designed to help this cohort of Americans avoid running out of money and provide them with a reliable cushion against volatile markets. In the US, over US\$15 trillion is invested in adviser-distributed financial assets net of existing annuities, while penetration of variable annuity sales into the retirement market remains low, demonstrating the scale of the opportunity for us.

In the UK and Europe there is growing demand among customers for managed solutions, savings products that provide better long-term returns than cash, while smoothing out the ups and downs of the market. We meet that need through our PruFund propositions and our comprehensive range of actively managed funds. M&G Prudential is well positioned to target this growing customer demand for comprehensive financial solutions and the demerger will enable this business to play an even greater role in these markets.

### Doing more for our customers


We deliver on our clear strategy and our long-term opportunities by paying close attention to the needs of our customers, by responding to those needs with products that fit their changing requirements, and by improving our capabilities continually in order to deliver the best products in the most effective way.

In Asia, our broad-based portfolio of businesses continues to drive the growth of the Group. We are constantly improving the range and quality of the products we offer in the region, developing our multi-channel distribution platform to ensure that those products reach as many customers as possible and improving our capabilities throughout our operations, not least by accessing new innovations in digital technology.

We develop products that meet the needs of our customers, whether that is for more personalised features or products aimed at new areas of the market and in 2017 we launched a number of new health and protection products in Indonesia, Vietnam, Singapore, Malaysia and Hong Kong.

### Prudential's Group Executive Committee

Mike Wells is advised and assisted by the Group Executive Committee, which comprises our Executive Directors and a team of functional specialists.

 The members of the Group Executive Committee and their roles are set out on page 406.

**Back, left to right:** Tim Rolfe, Julian Adams, Al-Noor Ramji, Anne Richards, Jonathan Oliver, Alan Porter.

**Front, left to right:** Nic Nicandrou, John Foley, Mike Wells, Mark FitzPatrick, Barry Stowe.

James Turner was appointed as an Executive Director and as Group Chief Risk Officer in March 2018.







Prudential won the insurance category of Management Today's 'Britain's Most Admired Companies' awards in December 2017.

We were also named Britain's most admired company overall for quality of management and inspirational leadership and fourth for our ability to attract and retain top talent. The highly regarded awards are based on a review by peers.

We are also continuing to improve both our agency platform and our bancassurance partnerships in Asia to ensure that we reach as many customers as possible. Nowhere is this clearer than in China, where, through our joint venture CITIC-Prudential, we now have a presence in 77 cities, with access to 940 million people, or about 70 per cent of the population of the world's most populous country. We have over 44,000 agents in China and access to more than 4,000 bank branches. Across the region during 2017 we increased our total agents to over 600,000 and we ended the year with over 15 million life insurance customers. Recent announcements of new agreements in the Philippines, Thailand, Indonesia and Vietnam have also increased the reach of our bancassurance partnerships.

Continuous improvement of our capabilities is also a key part of our approach, and in Asia we introduced a number of digital initiatives that will benefit both our customers and our shareholders, including apps and chatbots, that, among other services, can provide rapid claims payment, constant customer support, answer queries, help schedule appointments and transfer feedback from customers to our businesses. Building on its success in Hong Kong, our myDNA service, which provides diet and exercise advice based on genetic profiles, has been launched in Vietnam, Malaysia and Singapore. In Singapore we also launched PRU Fintegrate, a new initiative enabling us to collaborate with fintech startups to co-develop digital solutions for customers.

Eastspring is well placed for the anticipated growth in Asia's retail mutual fund market. To prepare further, we have strengthened our in-house investment teams, entered into new strategic partnerships and made significant progress in systems and operating model upgrades. In addition, Eastspring recognises that environmental, social and governance (ESG) factors can be material to investment returns, particularly in the long term, and has become a signatory to the United Nations-supported Principles for Responsible Investment (PRI), joining M&G Prudential asset management.

In the United States, we are continuing to develop our business to ensure we capture the opportunity presented by the millions of Americans moving into retirement now and over the coming years. Regulatory and industry changes are creating new areas of growth potential and we are adapting our offering to meet those opportunities. During 2017, in response to evolving conditions in the hybrid adviser segment of the market, Jackson launched Perspective Advisory II, an advisory version of our flagship product, Perspective II. We also announced the formation in November of our Private Wealth & Trust group, a specialised team focused on complex planning, investment management and tax mitigation strategies for high-net-worth clients. At the same time, we are improving communication for customers, and our initiatives in this area last year included the launch of a new website, the Financial Freedom Studio, where consumers can learn about financial planning for retirement, aimed at simplifying the language and focusing on planning for lifetime income.

In the UK and Europe, the combination of our life and asset management businesses into M&G Prudential has enabled us to meet the needs of our customers better than ever before. The business manages £351 billion of assets<sup>4</sup> for more than seven million customers, both in the UK and internationally, and we are leveraging our scale, financial strength and complementary product and distribution capabilities to enhance the development of capital-efficient, customer-focused solutions. Bringing these businesses together has given us the opportunity to

deliver better collaboration across business segments and more innovative and differentiated propositions. It also provides better access to customers and channels, merger cost synergies and transformation benefits, including the chance to invest to create a digital, data-led business with low marginal cost of growth. M&G Prudential is in the top five in UK retail funds<sup>19</sup>, with an active management offering, and provides a range of consumer-focused retirement and savings wrappers. The performance of its products continues to make them very popular among customers. The flagship PruFund Growth Life Fund, for example, has grown by 36 per cent since the start of 2013, compared with benchmark growth of 30 per cent, and this performance has driven growth in PruFund assets under management from £7.5 billion in 2012 to £35.9 billion at the end of 2017. To improve the offering to customers, in 2017 the business rolled out myM&G, its direct-to-consumer platform.

We took another step forward in our Africa business in 2017 when we entered Nigeria, Africa's largest economy and our fifth market in the region. Following the launch of our businesses in Ghana, Kenya, Uganda and Zambia, this further demonstrates our commitment to Africa and our determination to bring the benefits of our products to customers across the region.

We continue to invest in our capabilities and our people across the organisation. In July we welcomed Mark FitzPatrick to our executive team as Chief Financial Officer, succeeding Nic Nicandrou, who took over from Tony Wilkey as Chief Executive of Prudential Corporation Asia. Mark brings with him significant experience and knowledge of the sector, and I am confident that Nic will lead our Asian business to further success. In March 2018 James Turner was appointed Group Chief Risk Officer, bringing fresh perspective and additional leadership capacity to our executive team.

# Group Chief Executive's report - Mike Wells continued

## A positive outlook

With our clear strategy focused on long-term trends around the world and continued improvements in our execution capabilities, we are delivering value to our customers, our shareholders and the communities in which we operate. This is supported by our ongoing focus on risk management and the strength of our balance sheet. We believe the demerger of M&G Prudential from the international group will leave both businesses better able to focus on meeting our customers' rapidly evolving needs and to deliver long-term value to investors as two separate companies. I have no doubt that the strength of our underlying opportunities and our proven ability to innovate and improve the way we do things, will ensure that both businesses are well positioned to continue to serve our customers well and grow profitably into the future.



A handwritten signature in black ink, appearing to read 'Mike Wells'. The signature is fluid and cursive, written over a light blue background.

**Mike Wells**  
Group Chief Executive

### Notes

- 1 Source: US Census Bureau, Population Division, 2017 estimate of population.
- 2 IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.
- 3 The current year and all comparative amounts for the Asia objectives exclude contributions from the Korea life business which was sold in 2017. The 2017 Asia IFRS operating profit objective was adjusted accordingly. 2012 comparative amounts include the one-off gain on sale of the stake in China Life of Taiwan of £51 million.
- 4 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
- 5 Year-on-year percentage increases are stated on a constant exchange rate basis unless otherwise stated.
- 6 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results.
- 7 Based on the 2017 operating segments.
- 8 The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
- 9 Estimated before allowing for second interim dividend.
- 10 Closing EEV shareholders' funds divided by issued shares, as set out in note II(n) of the Additional unaudited financial information.
- 11 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note II(k) of the Additional unaudited financial information.
- 12 Growth rate on an actual exchange rate basis.
- 13 Working age population 15 - 64 years. Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, DVD Edition.
- 14 Source: BCG Global Wealth 2016. Navigating the New Client Landscape.
- 15 Source: World Health Organisation - Global Health Observatory data repository (2013). Out of pocket as percentage of total health expenditure.
- 16 Source: Swiss Re Sigma 2015. Insurance penetration calculated as premiums as percentage of GDP. Asia penetration calculated on a weighted population basis.
- 17 Source: Swiss Re, Mortality Protection Gap: Asia-Pacific, 2015.
- 18 Source: Based on formal (Competitors' results release, local regulators and insurance associations) and informal (industry exchange) market share data. Ranking based on new business (APE or weighted FYP depending on the availability of data).
- 19 Source: The Investment Association, September 2017.
- 20 Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.



# 02

## Strategic report

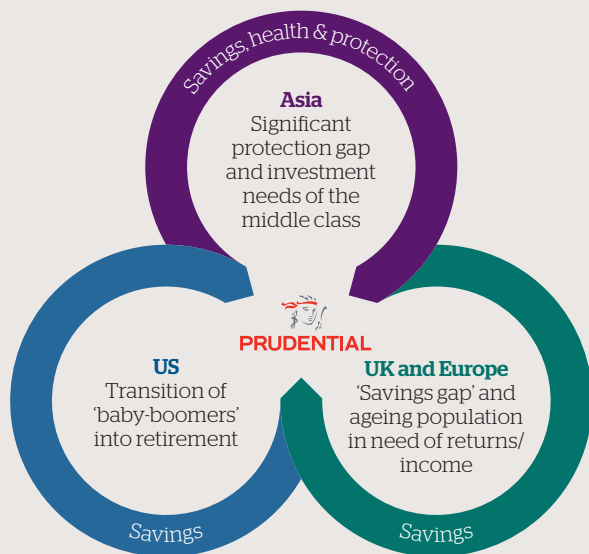
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At a glance

# Group at a glance

We meet the long-term savings and protection needs of a growing middle class and ageing population. We focus on three markets - Asia, the US and UK and Europe - where the need for our products is strong and growing and we use our capabilities, footprint and scale to meet that need. In recent years, we have expanded into Africa, taking advantage of the emerging demand for our products in the region.

## Our strategy



### We aim to capture three long-term opportunities across our key geographical markets:

- serving the protection and investment needs of the growing middle class in Asia;
- providing asset accumulation and retirement income products to US baby boomers; and
- meeting the savings and retirement needs of an ageing British and continental European population.

We aim to generate attractive returns, enabling us to provide financial security to our customers, invest in growth opportunities and meet our customers' high expectations.

## Africa

We entered Africa in 2014 to offer products to new customers in one of the fastest-growing regions in the world. We aim to provide products that help our customers to live longer and healthier lives, and save to improve future choices for them and their families.

## Asia



### Prudential Corporation Asia

Prudential Corporation Asia has leading insurance and asset management operations across 14 markets and serves the families of the region's high potential economies. We have been operating in Asia for over 90 years and have built high-performing businesses with multichannel distribution, a product portfolio centred on regular savings and protection, award-winning customer services and a widely recognised brand.

Eastspring Investments is a leading asset manager in Asia and provides investment solutions across a broad range of asset classes.

### Leading pan-regional franchise

# 94%

of APE sales are regular premium

# £139bn

Eastspring Investments funds under management

# £3.1bn

Eastspring Investments external net inflows<sup>1</sup>

<sup>1</sup> Excluding money market funds.

£669bn  
total funds under management

+26m  
customers worldwide

## US



### Jackson

Jackson provides retirement savings and income strategies aimed at the large number of people approaching retirement in the United States. Jackson's pursuit of excellence in product innovation and distinctive distribution capabilities has helped us forge a solid reputation for meeting the needs of customers. Jackson's variable annuities offer a distinct retirement solution designed to provide a variety of investment choices to help customers pursue their financial goals.

### Premier retirement income player

6.8x  
premium growth since 1995

19%  
market share of US variable annuities<sup>1</sup>

£3.5bn  
separate account net inflows

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## UK and Europe



### M&G Prudential

In August we announced the formation of M&G Prudential, a leading savings and investments business, ideally positioned to target growing customer demand for financial solutions in the UK and Europe. Our vision is a business built for the customer: simple, efficient, digitally enabled, capital light, fast-growing and above all focused on delivery. The combined business benefits from two strong complementary brands, a world-class investment capability, international distribution and a robust capital position.

### Well recognised brands with a strong track record of a long-term conviction-led investment approach

£17.3bn  
asset management external net inflows

£351bn  
M&G Prudential funds under management<sup>1</sup>

+7.2m  
customers

<sup>1</sup> Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.


# Creating shared value

Our trusted brands and strong distribution channels enable us to understand the growing needs of our customers for long-term savings and financial security, and to design innovative products that meet those needs. By helping to build better lives and stronger communities and to fuel the growth cycle, we create long-term value for both our customers and our shareholders.

## Understanding our markets >


### Asia

- Low life insurance and mutual fund penetration
- Significant health and protection gap
- Growing working age population
- Increasing consumer affluence

 Our businesses and their performance page 18


### US

- Retiring 'baby boomer' generation
- Large and growing retirement asset pools
- Growing demand for guaranteed income

 Our businesses and their performance page 24

### UK and Europe

- Ageing population
- Large and growing retirement asset pools
- Growing demand for savings and income

 Our businesses and their performance page 28

## Driving our business >

### Customers

Customers are at the heart of our strategy. We proactively listen to both new and existing customers to understand and respond to their changing needs. This allows us to propose financial solutions customised for different groups, whether that is young and middle-aged people or those in the retirement phase of life. We are expanding our digital infrastructure to enhance our customer experience.

### Products

We offer solutions for customers as they face the biggest financial challenges of their lives. We consistently develop our product portfolio, designing it around our customers' needs and providing them with peace of mind, whether that be in relation to saving for retirement or insuring against risks of illness, death or critical life events.

### Distribution


Distribution plays a key role in our ability to reach, attract and retain customers in different parts of the world. Building out and diversifying our distribution capabilities, including adding digital tools, helps ensure that we fully capitalise on the opportunities available to us in each of our markets.

### Investment for growth

We focus on strategic investment in long-term opportunities and capabilities to drive future growth and value for our stakeholders. We invest to improve relationships with our customers and distributors, to create innovative products, to improve our operating platforms and to capture new opportunities and build new relationships. We invest in digital capabilities to empower our distributors and improve customer service.

### Risk management

We generate value by selectively taking exposures to risks that are adequately rewarded and that can be appropriately quantified and managed. Balance sheet strength and proactive risk management enable us to make good our promises to our customers and create long-term value for our stakeholders.

 Report on the risks facing our business page 48

## Creating value...



## Growth

**£4,699m****IFRS operating profit**+6%<sup>1</sup> on 2016**£3,616m****New business profit**+12%<sup>1</sup> on 2016**£6,598m****EEV operating profit**+15%<sup>1</sup> on 2016

## Cash

**£3,640m****Free surplus generation**-1%<sup>1</sup> on 2016**£1,788m****Remittances**+4%<sup>2</sup> on 2016

## Capital

**£13.3bn****Solvency II surplus**+6%<sup>2</sup> on 2016**202%****Cover ratio**

+1pp on 2016

The Group has a number of key performance indicators internally to measure financial performance. Read more on page 16

- 1 Growth rates on constant exchange rate basis.
- 2 Growth rates on an actual exchange rate basis.

## ...for our stakeholders

We create financial benefits for our investors and deliver economic and social benefits for our customers, our employees and the societies in which we operate.



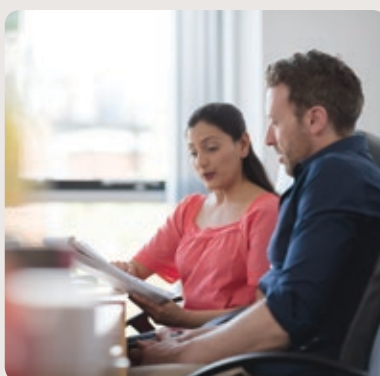
**Customers** Providing financial security and wealth creation.

Read more on pages 68 to 70



**Investors** Growing dividends and share price performance enhance shareholder value.

Read more on pages 16 to 80



**Employees** Providing an environment with equal opportunities, career potential and rewards enabling us to attract and retain high-quality individuals to deliver our strategy.

Read more on pages 74 to 77



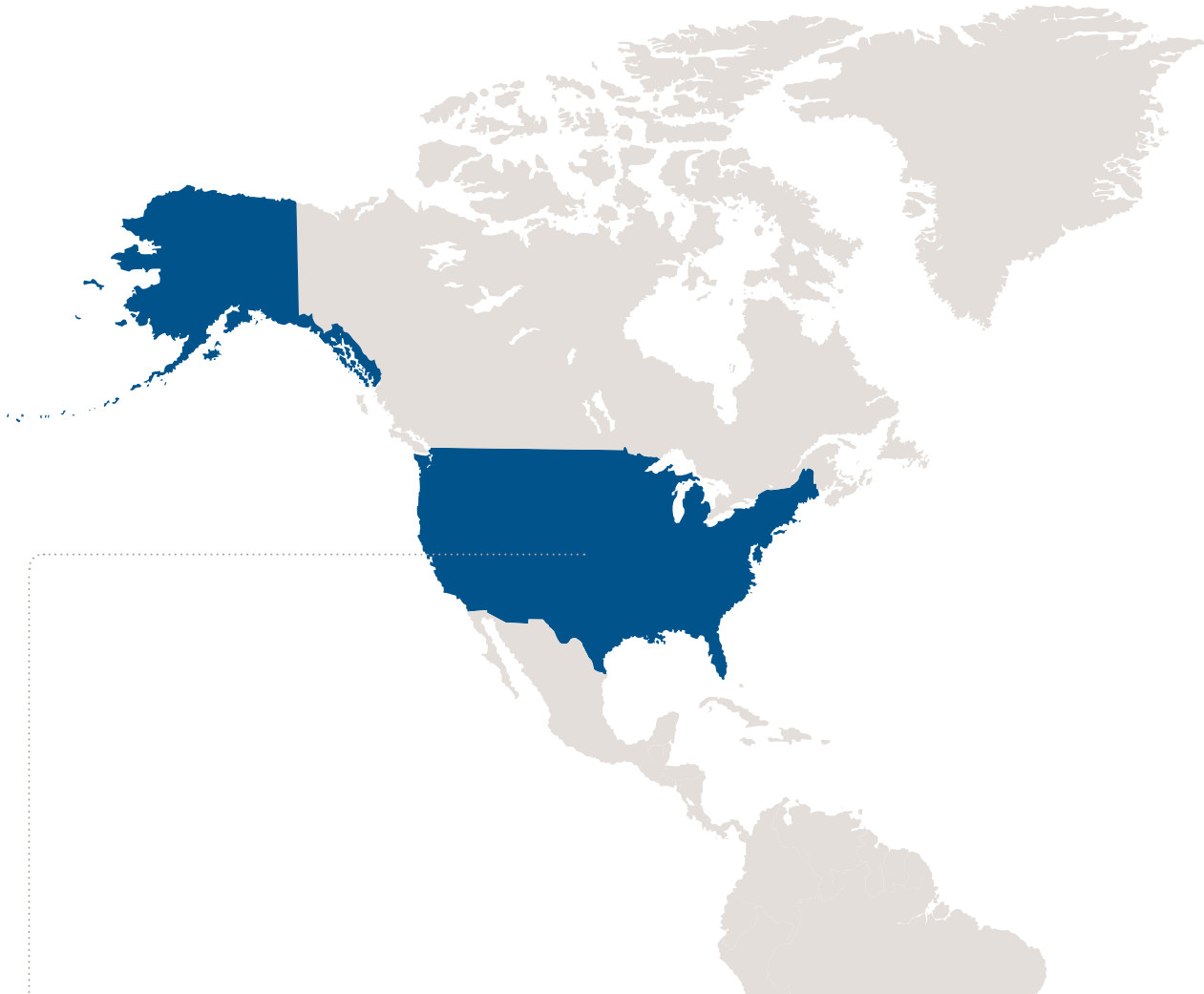
**Communities** Supporting communities where we operate, through investment in business and infrastructure, tax revenues and community support activities.

Read more on pages 70 to 84

Our distribution

# Our global distribution strength

Our trusted brands and strong distribution channels enable us to understand the diverse needs of our customers, and respond to those needs.



## Jackson

Strength and flexibility of our distribution network gives us a distinctive advantage

**Largest** VA wholesale distribution force in the US<sup>1</sup>

**Most productive** VA wholesale distribution force in the US<sup>1</sup>

**627** broker-dealers' selling agreements covering +226,545 (73%) of total US advisers<sup>2</sup>

**#1** selling variable annuity contract<sup>3</sup> in the independent channel since 2003

## Prudential Africa

Establishing network with market-leading initiatives

**+2,200** agents

**4** exclusive bank partners

Access to **+600** bank branches

**2** mobile bank partners

Approximately **700,000** customers



## M&G Prudential

Diversified distribution model underpinned by strong brand

**£351 billion** total assets under management<sup>4</sup>

Products registered in **24** jurisdictions around the world

**+7.2 million** customers

**+300** Prudential Financial Planning partners

## Prudential Corporation Asia

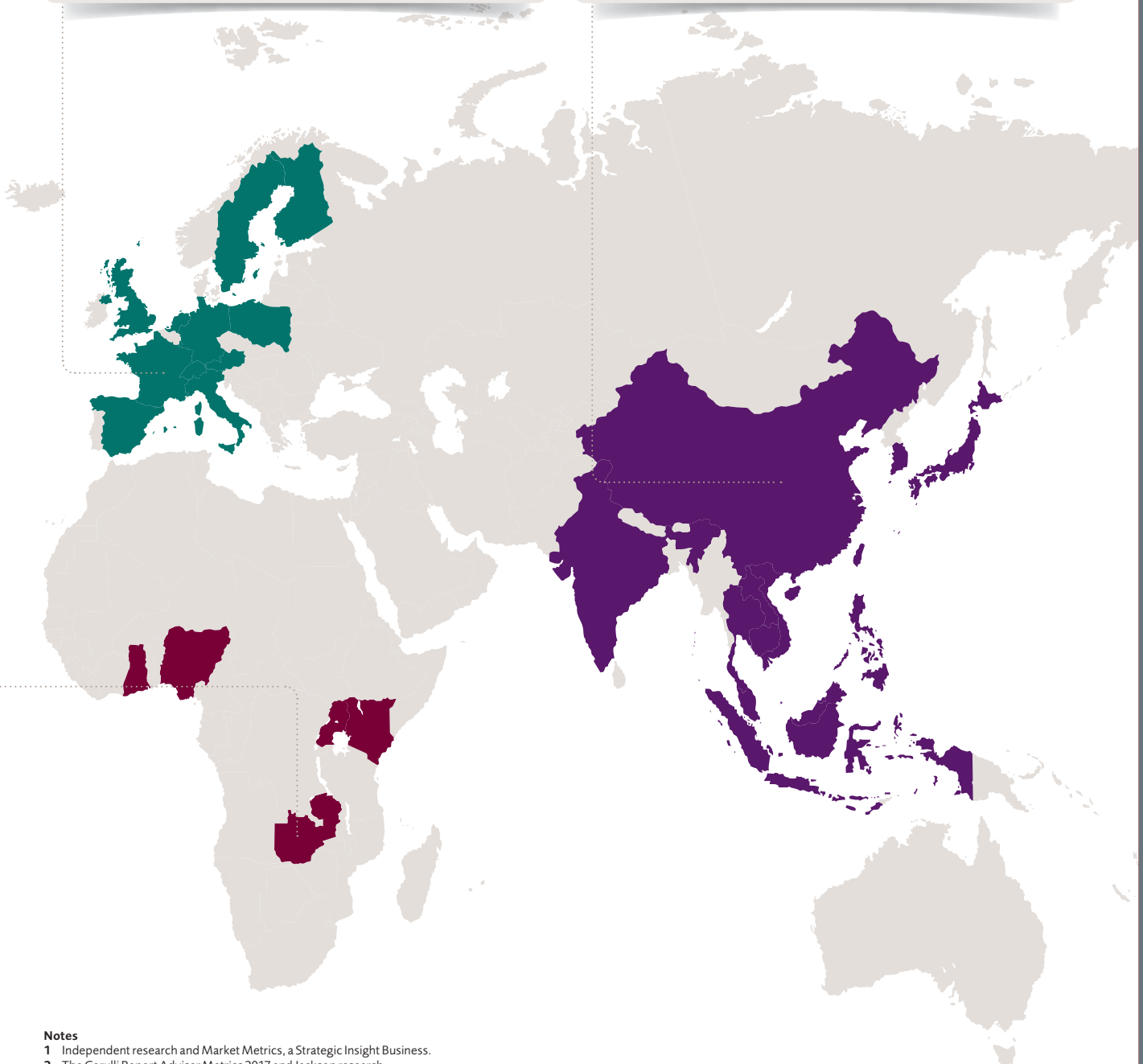
Pan-regional multi-channel network

**+600,000** agents

**Multiple** established bank partnerships

Active in **+10,000** bank branches

Eastspring Investments are present in **10** major Asian markets and distribution offices in US and Europe



### Notes

1 Independent research and Market Metrics, a Strategic Insight Business.

2 The Cerulli Report Adviser Metrics 2017 and Jackson research.

3 ©2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Morningstar [www.AnnuityIntel.com](http://www.AnnuityIntel.com). Total Sales by Company & by Contract 3Q YTD 2017. Jackson ranks #1 out of 735 VA contracts with reported sales in the Independent Channel in 3Q YTD 2017.

4 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.

# Measuring our performance

To create sustainable economic value for our shareholders we focus on delivering growth and cash while maintaining appropriate capital.

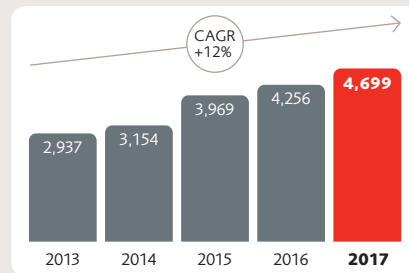
## Profit, cash and capital<sup>1</sup>

Prudential takes a balanced approach to performance management across IFRS, EEV and cash. We aim to demonstrate how we generate profit under different accounting bases, reflecting the returns we generate on capital invested and the cash generation of our business.

### IFRS operating profit based on longer-term investment returns<sup>2</sup> £m

The Group's business involves entering into long-term contracts with customers, and hence the Group manages its associated assets and liabilities over a longer-term time horizon. This enables the Group to manage a degree of short-term market volatility. Therefore IFRS operating profit based on longer-term investment returns gives a more relevant measure of the performance of the business. Other items are excluded from IFRS operating profit to allow more relevant period-on-period comparisons of the trading operations of the Group, eg the effects of corporate transactions are excluded.

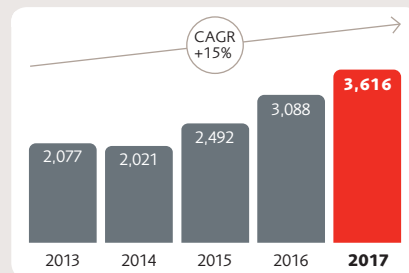
Group IFRS operating profit in 2017 is 6 per cent higher on a constant exchange rate basis (10 per cent on an actual exchange rate basis), compared with 2016, reflecting resilient performance in our life businesses, with Asia up 15 per cent (20 per cent on an actual exchange rate basis), the US up 3 per cent (8 per cent on an actual exchange rate basis) and UK and Europe up 8 per cent. Our asset management businesses have performed well with M&G Prudential asset management up 18 per cent and Eastspring also up 18 per cent (25 per cent on an actual exchange rate basis).



### EEV new business profit<sup>3</sup> £m

Life insurance products are, by their nature, long-term and generate profit over a number of years. Embedded value reporting provides investors with a measure of the future profit streams of the Group. EEV new business profit reflects the value of future profit streams which are not fully captured in the year of sale under IFRS reporting.

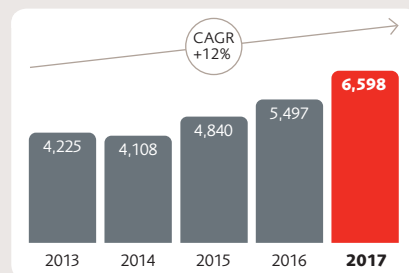
EEV new business profit in 2017 increased by 12 per cent on a constant exchange rate basis (17 per cent on an actual exchange rate basis) compared with 2016, driven by strong performance in each of our businesses with Asia up 12 per cent (17 per cent on an actual exchange rate basis), the US up 9 per cent (15 per cent on an actual exchange rate basis), and the UK up 28 per cent.



### EEV operating profit<sup>3</sup> £m

EEV operating profit is provided as an additional measure of profitability. This measure includes EEV new business profit, the change in the value of the Group's long-term in-force business, and profit from our asset management and other businesses. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.

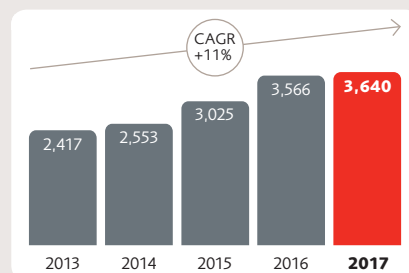
Group EEV operating profit in 2017 increased by 15 per cent on a constant exchange rate basis (20 per cent on an actual exchange rate basis), compared with 2016, driven by higher new business profit and higher contributions from the in-force business.



### Group free surplus generation<sup>4,5</sup> £m

Free surplus generation is used to measure the internal cash generation of our business units. For insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit for the year.

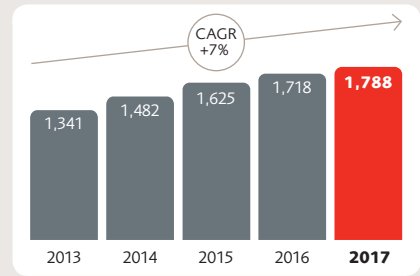
Overall underlying free surplus generation decreased by 1 per cent on a constant exchange rate basis (increased 2 per cent on an actual exchange rate basis), reflecting a one-off benefit in the prior year in our US business and higher restructuring costs within the Group, offsetting higher contributions in Asia and the UK and Europe.



### Business unit remittances<sup>6</sup> £m

Remittances measure the cash transferred from business units to the Group. Cash flows across the Group reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities available to the Group.

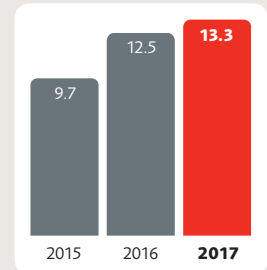
Total remittances to the Group increased by 4 per cent in 2017, compared with 2016, with significant contributions from each of our major businesses. This increase was driven by remittances from Asia, up 25 per cent (on an actual exchange rate basis) compared with 2016.



### Group Solvency II capital surplus<sup>7,8</sup> £bn

Prudential is subject to the risk-sensitive solvency framework required under European Solvency II Directives (Solvency II) as implemented by the Prudential Regulation Authority in the UK. The Solvency II surplus represents the aggregated capital (own funds) held by the Group, less solvency capital requirements.

The high quality and recurring nature of our operating capital generation, beneficial effects of debt issued and disciplined approach to managing balance sheet risks is reflected in the solvency capital surplus, which increased to £13.3 billion at 31 December 2017.



### 2017 objectives

We are pleased to report that the Group has successfully achieved the financial objectives announced in December 2013. This demonstrates the successful execution of our strategy and is testament to the strength, scale and diversity of our Asia platform.

#### Asia objectives<sup>9</sup>

##### Asia IFRS operating profit, £m

Asia life and asset management pre-tax IFRS operating profit to grow at a compound annual rate of at least 15 per cent over the period 2012 - 2017.

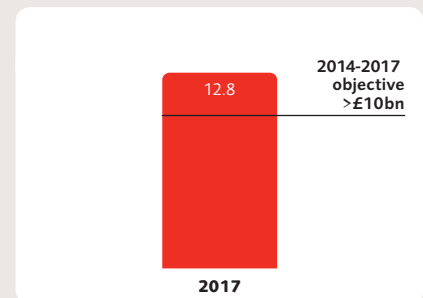
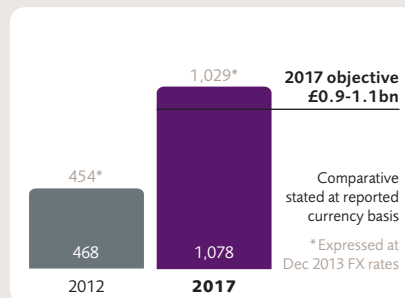
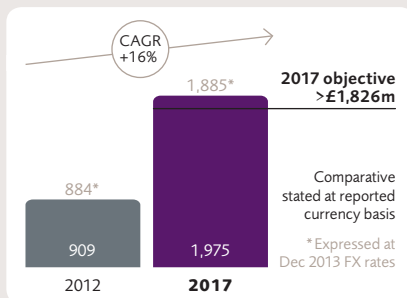
##### Asia underlying free surplus, £m

Asia underlying free surplus generation<sup>4</sup> of £0.9 billion to £1.1 billion in 2017.

#### Group objective<sup>10</sup>

##### Group cumulative underlying free surplus, £bn

Cumulative Group underlying free surplus generation of at least £10 billion over the four-year period from 2014 to end-2017.



### Notes

- The comparative results shown above have been prepared using actual exchange rates (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officers' report on our 2017 financial performance. CAGR is Compound Annual Growth Rate.
- IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.
- Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV principles discussed in note 1 of the EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note C of the Additional EEV financial information.
- Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further

- information is set out in note 11 of the EEV basis results. Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movement, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs. Further information is set out in note 11 of the EEV basis results.
- The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3 of the IFRS financial statements. On re-presentation, Prudential Capital is excluded from underlying free surplus generated.
- Cash remitted to the Group forms part of the net cash flows of the holding company. A full holding company cash flow is set out in note II (a) of Additional IFRS financial information. This differs from the IFRS Consolidated Statement of Cash Flows which includes all cash flows relating to both policyholders and shareholders' funds. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

- The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
- Estimated before allowing for second interim ordinary dividend.
- The current year and all comparative amounts for the Asia objectives exclude contributions from the Korea life business which was sold in 2017. The 2017 Asia IFRS operating profit objective was adjusted accordingly. 2012 comparative amounts include the one-off gain on sale of the stake in China Life of Taiwan of £51 million.
- For the purpose of the Group objective, cumulative underlying free surplus generation includes the free surplus relating to Prudential Capital.

# Asia

There are compelling structural trends that underpin the long term opportunities for savings and protection across the region, and Prudential is positioned for further growth in these markets.

## 2017 performance highlights

- Continued performance in key metrics: new business profit up 12 per cent<sup>1</sup>, IFRS operating profit up 15 per cent<sup>1</sup> and underlying free surplus generation up 19 per cent<sup>1</sup>
- 2017 financial objectives achieved
- Eastspring total funds under management of £138.9 billion up 18 per cent<sup>2</sup>
- Operating in 77 cities in China with APE sales up 43 per cent<sup>1</sup>
- Eastspring named 'Best Asset Management House' by Asia Asset Management for 2018 Awards

In Asia the insurance and savings industries are still in their infancy with average insurance penetration rates at just 2.4 per cent<sup>6</sup>, well below those seen in the UK. 65 per cent of personal wealth in Asia is held in cash or deposits relative to 14 per cent in the US. There are significant growth opportunities that arise from simply addressing these existing concerns. However, there are key structural trends that will further increase this strong demand for savings and protection for decades ahead.

The first is the growing working population which is predicted to increase at over 1 million people per month. This means that between 2015 and 2030 some 178 million people will reach working age, roughly the equivalent to the combined populations of the UK, France and Italy.

The second trend relates to the significant economic growth potential of the region with, GDP in Asia predicted to increase significantly. The implications on wealth creation are profound, with private financial wealth increasing by some US\$4 trillion per annum from 2016 to reach US\$78 trillion by 2021.

The third trend covers the expanding mortality and morbidity protection gaps; as families' wealth increases so does the amount of money they need to sustain their lifestyles in the event of a life-changing event such as the death of a breadwinner or the diagnosis of a critical illness.

Research concluded that in Prudential's life markets the mortality gap is US\$45 trillion<sup>8</sup> and out of pocket healthcare expenditure is roughly four times the rates seen in the US and UK.

While these opportunities are attractive, there are a number of challenges associated with executing them. The industry is highly regulated as governments are rightly very concerned about ensuring individuals do not take undue risks with their savings and receive fair outcomes. The products are intangible, with the benefits potentially not crystallising for many years; customers need to have a high level of confidence in the company that they are entrusting their financial well-being to. The products can be complex and unfamiliar, so customers typically need advice and guidance on how

to address their individual needs. Building, training and managing teams of financial advisers that can do this takes considerable time and expertise. Within this context, Prudential is differentiated by its long history in Asia, the breadth and depth of its operations, and its discipline and quality of execution.

Prudential Corporation Asia has all the key attributes for continuing success, starting with a footprint of life insurance and asset management business spanning 14 countries and giving us access to 3.3 billion people. We also have unrivalled expertise in the region, having been in Malaysia since 1924, and entering markets early such as India, China, Vietnam and most recently Cambodia and Laos. We also pioneered industry developments in the region, such as unit-linked products and bancassurance. Our sheer scale is a key competitive advantage with over 600,000 agents, access to more than 10,000 bank branches, 15 million life customers, 24 million life policies currently in force and £139 billion of assets under management.

From this position of strength, we are now leveraging our expertise further to deliver greater value from our agency and bank channels, broaden our product offering and drive efficiencies in our operational platforms. We are also being increasingly innovative in the ways we add value for our customers, often harnessing digital technology.

### Distribution

Prudential Corporation Asia has one of the strongest distribution platforms in the region, with a well diversified mix of tied agents and bank partners that enables us to reach a broad range of customers. Our experience is that customers' fundamental preference for face-to-face advice and service from a trusted financial adviser is undiminished, and so tied agency and in-branch bank sales staff will remain our primary distribution channels.

However, we are making significant investments in upgrading our capabilities to ensure we not only meet but exceed our customers' expectations, including digital innovations and efficiencies, when they interact with our distributors. For example, in Singapore our agents are now equipped



## Adding more to life: Nasrun, Prudential Indonesia

'As a PRUcustomer Friend<sup>20</sup>, one of my first direct interactions with a Prudential customer was meeting a gentleman who was thinking of surrendering his policy. I encouraged him to maintain an active policy by citing the benefits, and thankfully he did just that. Not long after our meeting, I received the sad news that he had passed away.

His daughter, who was the beneficiary of his life insurance policy, visited and thanked me for persuading her father not to surrender the policy. She said, "thanks to you, we were able to cover the hospital bills and other expenses after my father passed away".

It's moments like these that I'm grateful for my role at Prudential, which gives me the opportunity to make a difference in people's lives.'

with our fourth generation of an electronic point of sales ('ePos') portal that uses the latest developments in biometric authentication and produces a detailed quote within three minutes. In China our mobile policy application process has reduced customer on-boarding time from five days to 30 minutes, and includes auto underwriting and verification so policies can be issued within seconds. These initiatives not only give our customers a better experience, but also help our agents become more productive; in China the number of active agents increased 24 per cent last year and their average case sizes increased 21 per cent.

Our agency management capabilities in terms of recruiting and training are well proven, but we are continuing to upgrade these. For example in Indonesia, where we recruited an average of over 4,500 agents per month during 2017, our PRUforce agency workbench has enabled us to reduce significantly on-boarding times. 'Million Dollar Round Table' membership is an industry-recognised indicator of agency quality, and in Hong Kong we lead the market with over 4,000 qualifiers up by 53 per cent<sup>9</sup>. We are also adapting technology to improve the service we provide to our agents, such as askPRU in Singapore, the industry's first chatbot policy enquiry system. Since its launch, calls to the service centre have reduced by 30 per cent.

We believe bancassurance is an effective way to increase insurance penetration and Prudential has an excellent track record in growing high quality business through this channel with a number of different

partners. For example, we have had an enduring regional relationship with Standard Chartered Bank since 1998 and the ongoing effectiveness of this relationship is evidenced by a 12 per cent growth in APE last year. We have also had great success in securing and then activating newer relationships, for example Thanachart Bank in Thailand grew APE by 17 per cent last year following collaboration on a new regular premium product.

In addition we are actively increasing our engagement with other banks. We have recently announced new agreements with Robinsons Bank in the Philippines, Siam Commercial Bank in Thailand for the provision of unit linked products to their high worth customers and Shinhan Bank in Indonesia and Vietnam.

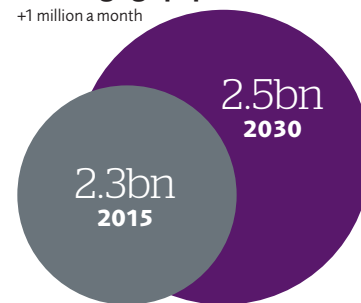
### Products

Prudential has a full suite of products that are tailored to meet individual market requirements and customer needs. Our overarching priority is to ensure firstly that customers have appropriate levels of protection and then support them with their long-term savings objectives. Consequently a relatively high proportion of our average premiums are directed to protection products; equal to 27 per cent of total APE in 2017, and regular premiums comprised 94 per cent of the total APE. This mix is also beneficial to shareholders, as regular premiums provide a reliable stream of compounding revenues and protection business has higher profit margins as shareholders are providing capital to support risks.

## Understanding our markets

### Working age population<sup>3,4</sup>

+1 million a month



### Health gap: out-of-pocket healthcare spend<sup>5</sup>



### Insurance penetration<sup>6</sup>



### Private financial wealth<sup>7</sup>

+US\$4trillion a year



Our businesses and their performance continued

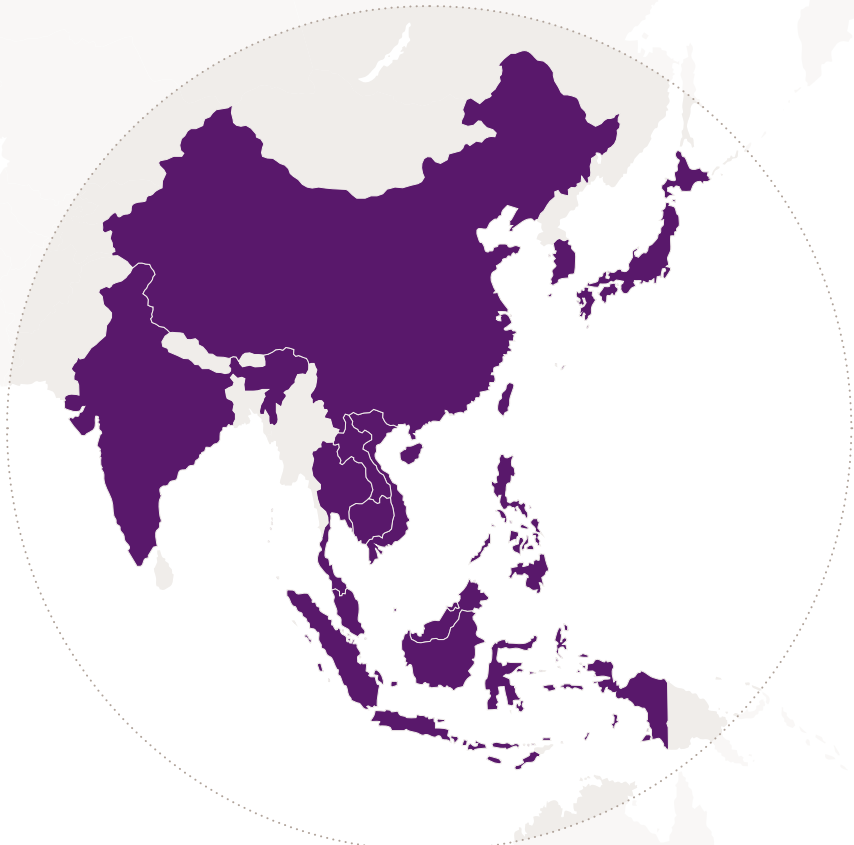
# A leading pan-Asia franchise

The combination of Prudential Corporation Asia's broad capability set, wide business footprint, and the significant opportunity across the market underpins our business in Asia.

## Accelerate Asia

### Compounding revenues and profits

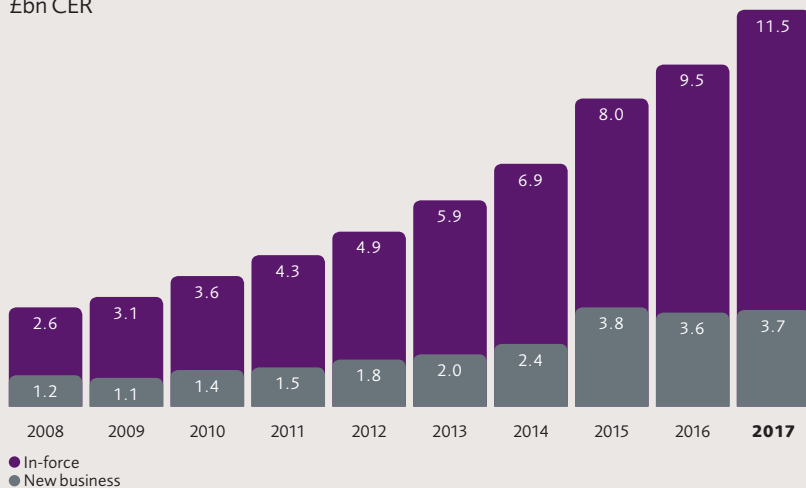
Prudential Corporation Asia is a business with compounding revenues underpinned by high quality recurring income that is uncorrelated to investment markets. The current scale and profitability has been achieved by increasing our customer base and penetration across the continent. Growth is driven by our ability to meet customer needs through the breadth of markets we operate in, the scale and innovation of our operations, the capabilities of Eastspring Investments, our pan-Asia asset manager, and our diverse and talented workforce.



#### Life

#### Life weighted premium income<sup>10,11</sup>

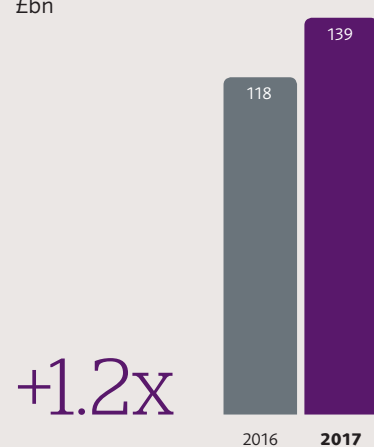
£bn CER



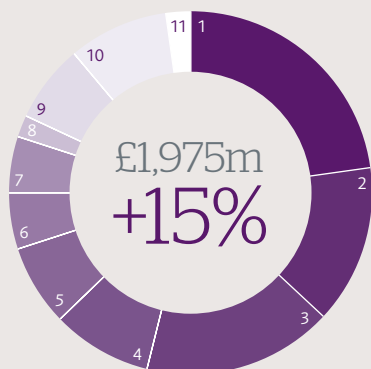
#### Asset management

#### Funds under management<sup>12</sup>

£bn



### Diversification



### IFRS operating profit by region

Full year 2017 %

1 Indonesia	23%	+2%
2 Singapore	14%	+10%
3 Hong Kong	17%	+38%
4 Malaysia	9%	+15%
5 Vietnam	7%	+15%
6 Thailand	5%	+7%
7 China	5%	+38%
8 Philippines	2%	+11%
9 Taiwan	7%	+10%
10 Eastspring	9%	+18%
11 Others	2%	+14%

Growth rate vs 2016  
constant exchange rates

### Hong Kong

#### Life insurance

Market ranking <sup>12</sup>	2nd
Population	7m
Penetration <sup>13</sup>	16.2%

#### Eastspring

Funds under management <sup>14</sup>	£3.4bn
--------------------------------------	--------

### India<sup>15</sup>

#### Life insurance

Market ranking <sup>12</sup>	1st
Population	1.3bn
Penetration <sup>13</sup>	2.7%

#### Eastspring

Funds under management <sup>14</sup>	£17.2bn
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### Indonesia

#### Life insurance

Market ranking <sup>12</sup>	1st
Population	261m
Penetration <sup>13</sup>	1.6%

#### Eastspring

Funds under management <sup>14</sup>	£4.0bn
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### Japan

#### Eastspring

Funds under management <sup>14</sup>	£7.2bn
--------------------------------------	--------

### Korea

#### Eastspring

Funds under management <sup>14</sup>	£8.7bn
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### Laos

#### Life insurance

Market ranking <sup>12</sup>	3rd
Population	7m
Penetration <sup>13</sup>	0.0%

### Malaysia<sup>17</sup>

#### Life insurance

Market ranking <sup>12</sup>	1st
Population	31m
Penetration <sup>13</sup>	3.1%

#### Eastspring

Funds under management <sup>14</sup>	£7.4bn
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### Philippines

#### Life insurance

Market ranking <sup>12</sup>	3rd
Population	102m
Penetration <sup>13</sup>	1.2%

### Singapore<sup>18</sup>

#### Life insurance

Market ranking <sup>12</sup>	2nd
Population	6m
Penetration <sup>13</sup>	5.5%

#### Eastspring

Funds under management <sup>14</sup>	£74.8bn
--------------------------------------	---------

### Taiwan

#### Life insurance

Market ranking <sup>12</sup>	12th
Population	24m
Penetration <sup>13</sup>	16.6%

#### Eastspring

Funds under management <sup>14</sup>	£5.4bn
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### Thailand

#### Life insurance

Market ranking <sup>12</sup>	10th
Population	68m
Penetration <sup>13</sup>	3.7%

### Vietnam

#### Life insurance

Market ranking <sup>12</sup>	2nd
Population	94m
Penetration <sup>13</sup>	1.0%

#### Eastspring

Funds under management <sup>14</sup>	£2.0bn
--------------------------------------	--------

### Cambodia<sup>19</sup>

#### Life insurance

Market ranking <sup>12</sup>	1st
Population	16m
Penetration <sup>13</sup>	0.1%

### China<sup>15</sup>

#### Life insurance

Market ranking <sup>12</sup>	4th
Population	1.4bn
Penetration <sup>13</sup>	2.3%

#### Eastspring

Funds under management <sup>14</sup>	£6.3bn
--------------------------------------	--------

# Our businesses and their performance continued

While we are already one of the leaders in the protection space, continued innovation is essential for our ongoing success. In Hong Kong we recently launched a very popular upgrade to our critical illness product, PRUhealth critical illness multi-care, which provides lifetime multi-claim, lump-sum cover for 113 disease conditions, including three claims for cancer up to a total of 300 per cent of the sum assured.

We are also successfully evolving our product ranges within markets to cater for a more differentiated range of customer needs. For example, in Indonesia we have introduced Hebat, a lower premium investment linked product, at one end of the spectrum for emerging customers and an 'as charged' medical product at the other end for higher net worth customers. In Indonesia and Malaysia we have been successfully developing Takaful products to provide for the specific needs of Muslim customers.

Work is also underway to ensure we have active dialogues with our customers so their products keep up with their changing needs. Technology is also helping here; during 2017 we piloted 'next best offer' with our agents in Hong Kong. This is an AI-driven app that automatically recommends additional coverage to existing customers.

## Customers

Excellent customer service is a prerequisite for sustained success in the industry and we are continuously driving improvements. For example, in China we have introduced WeChat e-claims that have reduced the processing time for a seven day hospitalisation claim from around 18 days to two days. The usage rate of e-claims is 99 per cent. In Hong Kong we have simplified the verification processes for Mainland China customers using iPads and GPS so they no longer need to visit our customer service centre. In Indonesia we have developed PRUcheers, an analytics-driven business engine that performs a pre-assessment of claims so that low risk ones can now be turned around in minutes, and the turnaround time for medical claims has been reduced by 15 per cent.

However, in addition to improved processes, customers are increasingly looking for value added services that go beyond the basic product proposition and so provide opportunities for us to increase our connections with them. In Hong Kong we found that myDNA, a service that provides customised diet and exercise

advice supported by an app and based on an individual's genetic profile, is very popular and so this has already been rolled out to Vietnam, Malaysia and Singapore. In Malaysia we have partnered with BP Global for their Doctor2U app. This gives our customers preferential rates on services that include online video medical consultations and the option to have a call-out 24/7. In Indonesia we have the PRUmedical network covering 45 hospitals in 24 cities. Our customers receive priority admission and discharge to reduce waiting times, and are also guaranteed rooms.

More broadly, we are also engaging with customers in areas that concern them. Our Relationship Index gives insights on one of the most important areas of customers' lives, their relationships with their loved ones. Customers are also increasingly concerned that companies they are associated with are 'good'. Our Prudence Foundation has well recognised community initiatives around children's education, including the Cha-Ching financial literacy programme and our disaster preparedness initiatives including the Safe Steps campaigns on natural disasters, road safety and first aid. Our YouTube channels that hold videos related to these and other initiatives have had over 100 million views.

## Eastspring Investments

Eastspring has a number of advantages and is well placed for the anticipated growth in Asia's retail mutual fund market. It has one of the largest footprints in Asia, being operational in 10 major markets. It has a well diversified customer base comprising Prudential's internal life funds, and a number of institutional clients, including sovereign wealth funds and retail customers. Assets managed are also well diversified between fixed income and equities and also include infrastructure funds.

Recent developments include a broadening and strengthening of our in house investment teams with some key hires, winning the 'Best Asset Management House' award<sup>21</sup>, new strategic partnerships (BlackRock, Sustainable Growth Advisers and Korea Advanced Institute of Science and Technology), significant progress with our systems and operating model upgrades and enhancing our institutional coverage by adding consultants in Asia and the US. We have also recently received approval of our business licence as an investment management wholly-foreign owned enterprise in China.

## Investing for growth

Given the compelling opportunities we see in the region we will continue investing for growth. We will continue to enhance our core operations, expanding our traditional distribution reach with more, higher quality agents; we will add new bank distribution partners and explore adding some non-traditional ones too. We will accelerate the work in digitising and automating our processes and ensure we have enhanced abilities to connect with the broader cloud-based ecosystem.

We are already one of the leaders in the health space, but we will investigate opportunities to participate more broadly in this area with more comprehensive and flexible coverages and a wider range of value added services. We will position Eastspring to play a greater role in managing Asia's rising wealth and we will also expand our presence in China.

Underpinning our ability to build on our existing strengths and build out our capabilities is our priority to continue investing in our people. It is vital that we further enhance our diverse and highly talented workforce.



**Nic Nicandrou**  
Chief Executive  
Prudential Corporation Asia



## Driving our business

### Customers

In Asia, we focus our efforts on helping new and existing customers build better futures for themselves and their families, by helping to fill the savings and protection gap that exists in many countries in the region.

### Products

We listen to our customers to help us understand their changing needs and tailor our design of product solutions and services. For example: PRUhealth cancer multi-care was launched to address the impact of multiple cancer diagnoses in Hong Kong and the region.

### Distribution

We are well-positioned in terms of the scale and diversity of our distribution to reach and serve our customers' needs. At the core of our distribution model is face-to-face customer interaction that delivers high-quality, needs-based advice.

### Investment for growth

Building on our strong track record, we are building for future growth by investing in new opportunities and capabilities.

## Creating value and benefiting our stakeholders

**15 million** life customers

**94%** of APE sales in regular premium

Brand awareness of **85%** (average 94% in top four markets)

**+600,000** agents

Access to over **10,000** bank branches

Now in **77** cities in China

Indonesia distribution expansion – circa **400** offices

Eastspring Investments total funds under management **£139 billion**

#### Notes

- 1 Growth rate on a constant exchange rate basis.
- 2 Growth rate on an actual exchange rate basis.
- 3 United Nations, Department of Economic and Social Affairs, Population Division (2015). World Population Prospects: The 2015 Revision, DVD Edition 15.
- 4 Working age population: 15 to 64 years.
- 5 World Health Organisation – Global Health Observatory data repository (2013). Out-of-pocket as a percentage of Total Health Expenditure. Asia calculated as average out-of-pocket.
- 6 Source: Swiss Re Sigma 2015. Insurance penetration calculated as premiums as percentage of GDP. Asia penetration calculated on a weighted population basis.
- 7 Source: BCG Global Wealth 2017: Winning the growth game.
- 8 Source: Swiss Re Mortality Protection Gap Report – Asia Pacific 2015.

- 9 Annual growth to 1 July 2017. Source: The Premier Association of Financial Professionals.
- 10 Weighted premium income comprises gross earned premiums at 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums.
- 11 Comparatives have been stated on a constant exchange rate basis. Historic have been restated to exclude sales from KoreaLife, classified as held for sale. 2014 excludes intra-group reinsurance contracts between the UK and Asia with-profits businesses.
- 12 Based on FY17 or the latest information available. Source include formal (eg Competitors results release, local regulators and insurance association) and informal (industry exchange) market share data. Ranking based on new business (APE sales on weighted full year premium depending on availability of data).

- 13 Market penetration: Swiss Re (Sigma) – based on insurance premiums as a percentage of GDP in 2016 (estimated).
- 14 FUM reported based on the country where the funds are managed.
- 15 Ranking among foreign JVs.
- 16 Ranking among private players.
- 17 Includes Takaful sales at 100 per cent.
- 18 Singapore includes onshore only, excluding Eldersfield and DPS.
- 19 First year premiums.
- 20 PRUcustomer Friends are employed by Prudential Indonesia to provide customer service and support, and enhance customer relationships.
- 21 2018 Asia Asset Management 'Best of the Best Regional Awards' – Best Asset Management House.

# United States

Providing an ageing American population with financial strategies for stable retirements.

## 2017 performance highlights

- Cash remittance of £475 million
- Total IFRS operating profit of £2.2 billion – up 3 per cent<sup>1</sup>
- Variable annuity total net inflows of £4.7 billion
- Strong separate account asset growth – up 19 per cent<sup>1</sup> at US\$176.6 billion (£130.5 billion)
- Awarded 'Contact Center World Class FCR Certification' and 'Highest Customer Service for the Financial Industry' awards by The Service Quality Measurement Group, Inc. – the 11th consecutive year of recognition for customer service performance in both categories

The US is the world's largest retirement savings market with approximately 40 million Americans reaching retirement age over the next decade alone. This transition will trigger the need for an unprecedented shift of trillions of dollars from savings accumulation to retirement income generation.

However, these Americans face challenges in planning for life after work. For many members of this generation, a financially secure retirement is at risk, due to insufficient accumulation of savings during their working years and the current combination of low yields and market volatility. Employer-based pensions are disappearing and government plans are underfunded. Social security was never intended to be a primary retirement solution and today its long-term funding status is in question. Additionally, the life expectancy of an average retiree has significantly increased, lengthening the number of years for which retirement funding is needed.

To overcome these challenges, Americans need and demand retirement strategies that offer them the opportunity to grow and protect the value of their existing assets, as well as the ability to provide guaranteed income that will last throughout their extended lifetimes. Jackson continues to respond to this demand with product innovation and distribution strategies that meet the needs of a growing retirement population, while generating shareholder value.

### Customers and products

Through its distribution partners, Jackson provides products, including variable, fixed and fixed index annuities, which offer Americans the retirement strategies they need. These products offer a range of features:

#### — Variable annuity

A Jackson variable annuity, with investment freedom, represents an attractive option for retirees, providing both access to equity market appreciation and guaranteed lifetime income as an add on benefit.

#### — Fixed index annuity

A Jackson fixed index annuity is a guaranteed product with limited market exposure but no actual equity ownership. It is designed to build wealth through a combination of a base crediting rate that is generally lower than a traditional fixed annuity crediting rate, but with the potential for additional upside based upon the performance of the linked index.

#### — Fixed annuity

A Jackson fixed annuity is a guaranteed product designed to build wealth without market exposure, through a crediting rate that is likely to be superior to interest rates offered from banks or money market funds.

These products also offer tax deferral, which allows interest and earnings to grow tax-free until withdrawals are made.

Jackson has a proven track record in this market with its market-leading flagship product<sup>6</sup>, Perspective II. Jackson's success has been built on its quick-to-market product innovation, as demonstrated by the development and launch of Elite Access in 2012, our investment-only variable annuity. Further demonstrating Jackson's flexibility and manufacturing capabilities, Jackson has launched Perspective Advisory II and Elite Access Advisory to serve advisers and distributors with a preference for advisory products. In November, Jackson launched Private Wealth Shield (PWS), a variable annuity developed specifically for trusts and private banks. To support this new product, Jackson also announced the formation of its Private Wealth & Trust group, a specialised team focused on complex planning, investment management and tax mitigation strategies for high-net-worth and ultra-high net-worth clients.

### Distribution

Jackson distributes products in all 50 states of the US and in the District of Columbia. Operations in the state of New York are conducted through a New York subsidiary. Jackson markets its retail products primarily through advice based distribution channels, including independent agents, independent broker-dealer firms, regional



## Adding more to life: Saundra, Jackson

'My retirement story is about how I want to spend the winter of my life. It's about having fun, enjoying my family, travelling and having the freedom to do the things I want to do, like spending time with my grandson.

My relationship with my financial adviser is a wonderful one. He is like a family member and confidant; easy to work with and establish goals.

I'm very pleased I chose a Jackson annuity. It gives me the confidence I need for my retirement. And to just live my life the way I want to live my life.'

broker-dealers, wirehouses, and banks. For variable annuity sales, Jackson is the leader in the independent broker-dealer, bank and wirehouse channels<sup>9</sup> and second in regional firms<sup>9</sup>.

Jackson's distribution strength also sets us apart from our competitors. Our wholesaling force is the largest<sup>7</sup> in the variable annuity industry and is instrumental in supporting the independent advisers who help the growing pool of American retirees develop effective retirement strategies. Our wholesalers provide extensive training to thousands of advisers about the range of our products and the investment strategies that are available to support their clients. Based on the latest available data, Jackson is the most productive variable annuity wholesale distribution force in the US<sup>7</sup>.

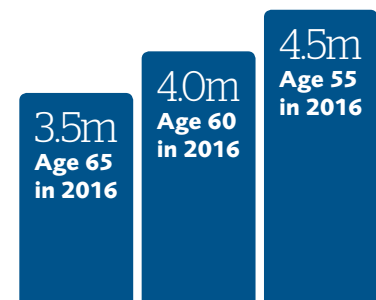
In August 2017, National Planning Holdings (NPH), an affiliate of Jackson, announced the sale of the business of the four firms in its independent broker-dealer network to LPL Financial LLC (LPL). With the US financial services industry experiencing a time of significant regulatory change and consolidation in the independent broker-dealer (IBD) sector, Jackson has determined its overall strategy did not include being a consolidator in the retail IBD space. Rather, our primary strategy is to focus on expanding Jackson's success as the leading manufacturer of retirement income products in the country.

### Regulatory landscape

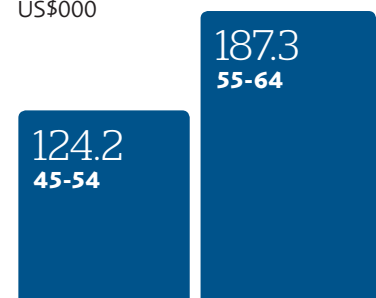
The industry has continued to manage through an ever-changing regulatory landscape. In April 2016, the US Department of Labor (DoL) released a final version of its Fiduciary Duty Rule (Rules), which seeks to eliminate conflicts of interest in investment advice, in order to protect and encourage savings and investment for working Americans. The DoL implemented a partial applicability date of 9 June 2017 where fiduciary advisers have an obligation to give advice that adheres to 'impartial conduct standards'. These impartial conduct standards require advisers to adhere to a best interest standard when making investment recommendations, charge no more than reasonable compensation for their services, and refrain from making misleading statements. In late November, the DoL announced an 18-month extension on the full applicability date from 1 January 2018 to 1 July 2019. The DoL intends to complete its review under the Presidential Memorandum, instructing the DoL to re-examine its fiduciary rule and decide whether to propose further changes, leaving the final form of the Rules unclear.

### Understanding our markets

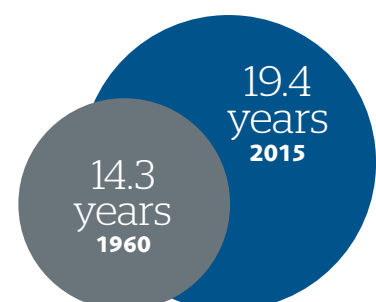
#### Retirement wave Baby boomer population by age<sup>2</sup>



#### Under-saved Median net worth<sup>3</sup> US\$000



#### Increased longevity Life expectancy at 65<sup>4</sup>



# Our businesses and their performance continued

As a result of the DoL regulatory initiative and the uncertainties regarding the application and implementation of the Rules, the annuity industry saw continued pressure on sales in 2017. Sales in the variable annuity industry as of the third quarter of 2017 at US\$70.9 billion<sup>10</sup> were down 11 per cent compared with the same period last year. Even with competitors recently offering fixed index annuities with benefits that resemble those of variable annuities, sales of fixed index annuities (US\$42.9 billion)<sup>10</sup> along with fixed annuity products (US\$38.9 billion)<sup>10</sup> were lower as of the third quarter of 2017 at 9 per cent and 13 per cent respectively, compared with the same period last year. Total annuity industry sales were down approximately 11 per cent<sup>10</sup> as of the third quarter of 2017.

Regardless of the outcome of the Rules, the regulatory disruption has challenged the industry to review the ways in which investment advice is provided to American investors. Manufacturers will need to have the ability to provide product and system adaptations in order to support the success of various distribution partners in their delivery of invaluable retirement strategies that investors need. Because of its strong distribution, leadership in the annuities market, best-in-class service and low-cost efficient operation, Jackson is extremely well positioned to take advantage of this opportunity.

The US National Association of Insurance Commissioners (NAIC) is currently conducting an industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and enhancing risk management. Following an industry quantitative impact study (QIS), changes have been proposed to the current framework. These changes were presented to the December NAIC national meeting, and were exposed for comment

by industry and interested parties until early March 2018. Jackson will continue to engage with the industry and the NAIC during the comment period.

On 22 December, 2017, President Trump signed into law the Tax Cuts and Jobs Act making significant changes to America's tax code. In 2017, the lowering of the corporate tax rate resulted in a charge for the reduction of Jackson's deferred tax assets. In the future, the lower rate and the effect of other changes to the calculation of taxable income are expected to lead to higher after-tax earnings, return on equity and capital generation, all else being equal.

### Investment for growth

With trillions of dollars of adviser-distributed assets across distribution platforms that have not historically been a focus, such as the dually registered investment adviser channel, there is significant opportunity to reach even more American retirees and serve their needs with annuity products going forward. The industry will need to remain flexible and cost-effective in making changes to products, systems, and processes. We continue to ensure that we understand and make the necessary adjustments to support the needs and demands of American retirees into the future.

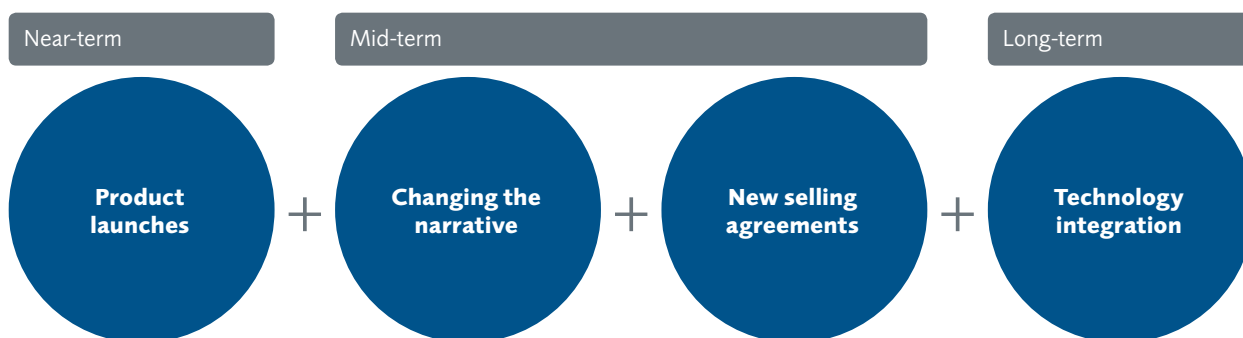
Jackson has implemented changes necessary to meet the requirements of the sections of the fiduciary rules which are effective. Jackson has made and continues to consider changes to its product offerings, entered into new selling agreements with advisory providers, and is working with its distributors to support implementation of the Best Interest Contract Exemption or product changes to the extent those become necessary before July 2019.

Jackson's competitive strengths are even more critical during periods of disruption. Our best-in-class distribution team, our agility and success in launching well designed products, the continued success through many economic cycles of our risk management and hedging programmes and our effective technology platforms and award-winning customer service will provide Americans with the retirement strategies they so desperately need, and will enable us to be positioned to capture additional growth during times of transition and into the future.



**Barry Stowe**  
Chairman and Chief Executive  
North American Business Unit

### Evolution of capabilities to succeed in the advisory market



## Driving our business

### Customers

Many retirees or soon to be retirees face a reality of under-saving, having no guaranteed income source and the prospect of living longer than any prior generation. Jackson's focus is to provide solutions to help address these concerns for the millions of Americans currently transitioning to and through retirement.

### Products

Jackson's products provide needed access to equity market growth, protection of principal, and a way of converting retirees' savings into retirement income with a degree of certainty. With a long history of disciplined product design and prudent risk management, Jackson has earned and continues to earn trust from its key stakeholders.

### Distribution

Jackson's distribution teams set us apart from our competitors. Jackson's wholesaling force is the largest and most productive in the industry, supporting thousands of advisers across multiple channels and distribution outlets.

### Investment for growth

Jackson continues to invest in technology and innovative products to efficiently and effectively adapt to what our customers and regulatory environment require. Jackson has recently launched an advisory version of our flagship product Perspective II and our innovative Elite Access product to allow for penetration into untapped distribution channels.

## Creating value and benefiting our stakeholders

Average of **10,000** Americans retire per day<sup>5</sup>

Assisting **4 million** customers with their financial needs

**2** of the top 10 variable annuity contracts by premium<sup>6</sup>

Perspective II is the **#1** selling variable annuity contract<sup>6</sup>

**Largest** VA wholesale distribution force in the US<sup>7</sup>

**Most productive** VA wholesale distribution force in the US<sup>7</sup>

Corporate Insight Annuity Monitor Awards for excellence in the online and offline experience offered to prospects, clients and advisers

Approximately **35%** of Jackson's advisory variable annuity sales from new advisers<sup>8</sup>

#### Notes

- 1 Growth rate on a constant exchange rate basis.
- 2 US Census Bureau Population division 2014 estimate of population.
- 3 2016 Federal Reserve Board's Triennial Survey of Consumer Finances.
- 4 US Department of Health and Human Services, 'Health, United States 2016'.
- 5 Social Security Administration, Annual Performance Plan for FY 2012, and Revised Final Performance Plan for FY 2011.
- 6 ©2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future

- 7 Independent research and Market Metrics, a Strategic Insight Business.
- 8 New advisers defined as producers who have not sold Jackson product since 2014.
- 9 ©2018 Morningstar Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future

- 10 LIMRA/Secure Retirement Institute, US Individual Annuity Participants Report 3Q YTD 2017.

# United Kingdom and Europe

Creating a simple, modern savings and investments business.

## 2017 performance highlights

- Announcement of merger of M&G and Prudential's UK and European business
- Start of major investment programme to improve customer service, accelerate product development and widen customer choice
- Total M&G Prudential assets under management<sup>1</sup> of £351 billion, up 13 per cent
- Net investment inflows to mutual funds and institutional investment strategies of £17.3 billion
- PruFund range reaches £36 billion in customer assets under management, up 46 per cent
- 45 per cent growth in funds under advice from our in house direct advice service, Prudential Financial Planning, to £5.5 billion

### Understanding our markets

In August 2017, we combined M&G, our international investment management business, with Prudential's UK and European life insurance business to form M&G Prudential. We also announced a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development and widen customer choice.

M&G Prudential serves two of the world's largest savings and investments markets with asset pools in the UK and Europe of £7 trillion and €14 trillion respectively.

Across the region, people increasingly need help to meet their long-term financing goals as responsibility for retirement savings passes from state and employer to the individual. They want easy access to savings and investment solutions, as well as guidance and advice from trusted providers. In addition, persistently low rates of return on bank cash deposits are fuelling demand for investment solutions, whether people are saving for retirement, building a lump sum or protecting their wealth from inflation.

Managing £351 billion of assets<sup>1</sup> for over seven million customers in the UK and internationally, M&G Prudential has investment expertise, scale and financial strength and two well-respected brands – M&G Investments and Prudential UK. With the substantial investment we will be making over the next five years in transforming the business's operations, including building our digital distribution capability, M&G Prudential is well placed to meet the growing and evolving saving and investment needs of customers across intermediated, institutional and retail direct channels.

### Customers

Whether we're helping an individual saver plan for their future with more confidence, or helping a big pension fund to meet its future commitments to pensioners, serving the long-term interests of our customers is key to the long-term performance of our business.

	Assets under management 31 Dec 2017	Customers
UK customers		
Investment funds	→ £36bn	186k direct customers
PruFund	→ £36bn	400k customers
Traditional products	→ £151bn	6.6m customers
European customers	→ £44bn	Leading cross-border fund sales
Institutions	→ £84bn	794 clients
	£351bn <sup>1,2</sup>	+7.2m customers

## Adding more to life: Maureen, M&G Prudential

'I was in my early 20s when I started investing with M&G through a monthly savings plan. I found the idea of investing with other people in different companies fascinating. I still do, in fact. I wasn't saving up for anything specific, but I wanted to put my money to work for the future – either for a big purchase, like a home, or just for more financial security.

At the end of the day, money can give you choices. You never know what opportunities or challenges might be around the corner. And not just for yourself – it's great to be able to help your family.

Having grown over the years, my investments with M&G have given me more options in life. Decades on from the first £10 I put in to one of their funds, I really value still being an investor.'



We offer a range of investment and saving propositions to different customer groups.

In the UK, we manage the savings of direct and intermediated customers through a range of mutual funds. We are also a leading provider of savings and retirement solutions to direct and advised UK customers with a 19 per cent market share in life and pensions retail investments as at end September 2017, including the popular and successful PruFund proposition in a number of different wrappers. We also have a large book of UK customers who own traditional insurance-based savings products. In continental Europe, where we have a leading position in cross-border fund distribution with £44 billion<sup>2</sup> in assets under management, customers in 17 countries are able to access our investment strategies. Finally, we manage the pension and other long-term savings of millions of people through our relationships with 794 institutional clients, including 70 per cent of the UK's 50 largest pension schemes.

We see significant opportunities for continued revenue growth in four of these customer segments, including from the synergies available from the combination of our investment management and savings and retirement solutions businesses. We also see an opportunity to offer customers in our existing book of traditional savings products a new set of propositions as their needs evolve.

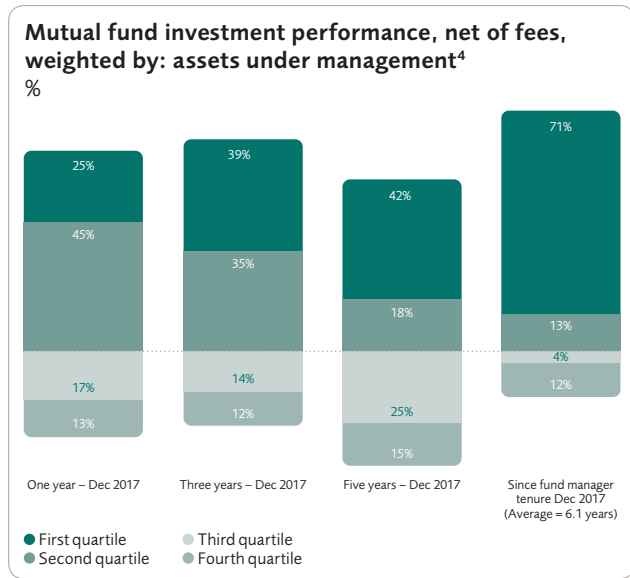
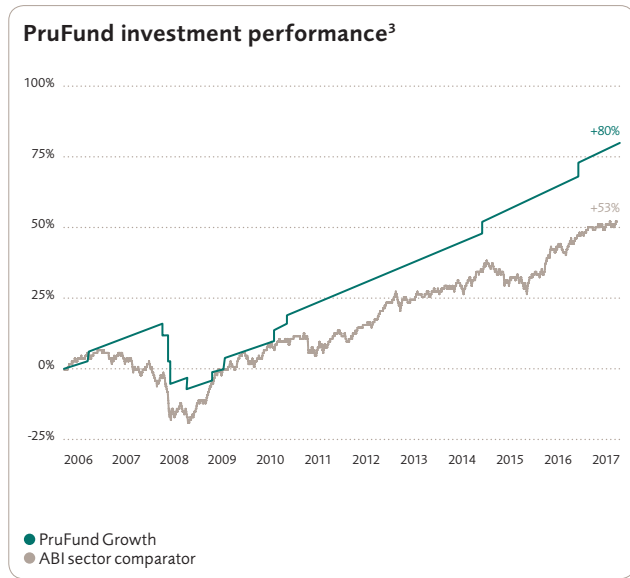
The expertise of the business in delivering investment outcomes for all of our customers is demonstrated by the scale of our operations. In total, M&G Prudential fund managers invest over £187 billion of assets on behalf of Prudential policyholders, in addition to the £164 billion of assets for customers invested in M&G mutual funds and institutional strategies. This combined investment footprint bolsters our investment solution capabilities allowing us to build the business around our customers and use our experience and insights to meet their needs.

### Our products

Our aim is to provide our customers with savings and investment solutions which meet their long-term financial needs and goals, in the structure which best suits them. Behind these solutions is a powerful investment engine: a highly skilled team of over 120 fund managers who put our customers' money to work by sourcing investment opportunities globally across a wide spectrum of asset classes, including equities, bonds, credit, real estate and cash across both private and public markets.

Of the total of £351 billion in assets under management<sup>1</sup> across our entire product range, approximately 60 per cent is now invested in multi-asset solutions and strategies, including the market leading £36 billion PruFund range and the strongly performing £12 billion Episode Allocation range. This expertise in asset allocation is a key part of our investment capability and has again driven substantial inflows over the last year, as customers across the UK and Europe have continued to seek the diversification and flexibility of a multi-asset solution.

# Our businesses and their performance continued



Other products include a range of unit-linked and collective investments, and within our corporate pension portfolio we continue to facilitate a range of auto-enrolment services.

For our savings and retirement customers we offer the PruFund range, which invests in our with-profits fund, the largest in the UK. The with-profits fund aims to smooth some of the extreme ups and downs of short-term investment performance to provide a more stable return. It has performed well over the past five years: for example, customers in the PruFund Growth Fund have seen growth of 36 per cent since the start of 2013 against benchmark growth of 30 per cent.

For direct investors in the UK and intermediated customers in the UK and internationally, we offer a range of 75 open-ended funds. The range offers a broad choice of asset types, geographies and investment strategies to help achieve a diversified portfolio. Our funds generally aim to deliver a rising income stream, long-term capital growth or a mixture of both, and the vast majority are available in ISA or JISA wrappers to UK direct customers. Almost all of our funds are managed actively for the long term.

Our open-ended flexible global bond fund, the M&G Optimal Income Fund, performed strongly in 2017. Having achieved an average annualised return of over 7 per cent since its launch in 2006, Optimal Income has been one of the top performing bond funds across all sectors over the last

decade. This return for its customers has been rewarded with net inflows of over £5 billion during 2017, bringing its assets under management to £23 billion.

This year we added our first open-ended infrastructure fund to our range, which aims to provide individual investors with both a growing income stream and long-term capital appreciation through exposure to the equity of global listed infrastructure companies. We also launched the M&G ESG Global High Yield Fund, a sister fund to our £1 billion Global High Yield Bond Fund. The new fund is aimed at meeting the needs of individual investors seeking higher yield.

During 2017, we also launched a further six M&G funds on our new Luxembourg-domiciled SICAV platform. As one of the most popular investment vehicles within Europe, the ability to offer SICAV funds will enable us to expand and deepen our highly successful international business further over the coming years. The new platform will also ensure we can continue to serve our European-based customers regardless of the outcome of Brexit negotiations between the UK and the EU. To that end, in September we announced our plans to migrate assets in four UK-domiciled funds held by European customers to the SICAV platform during 2018.

For our own life funds as well as for our third-party institutional clients, we continue to deliver innovative and competitive investment strategies to meet their specific needs. We are leading investors in 'alternative' assets such as commercial real estate debt, infrastructure debt and equity, and direct lending. These private assets are increasingly attractive options for investors looking for a yield to match their long-term pension liabilities, and of course also provide a valuable source of competitively-priced funding for new housing and infrastructure projects.

Reflecting growing demand from institutional clients for investments which make a positive societal and environmental impact, in 2017 we seeded our first Impact Financing Fund with investment from the Prudential life business and two third-party investors. Through private and illiquid debt transactions, the fund is already financing projects including a regeneration scheme, green energy and social housing construction.

## Distribution

In M&G and Prudential, we have two well-respected and complementary brands: Prudential is closely associated with retirement in the UK, while M&G is recognised as a leading investment brand, both in the UK and across international markets.



## Driving our business



## Creating value and benefiting our stakeholders

### Customers

Meeting the growing and fast-evolving saving and investment needs of customers across retail, institutional and direct channels.

### Products

Market leading propositions, including PruFund and the M&G Optimal Income Fund, available in a number of saving and investment wrappers; and a range of strategies to help institutional customers meet their long-term commitments.

### Distribution

Multi-channel distribution, based on strong relationships with institutional investors, advisors and intermediaries, and substantial direct-to-customer franchises, including Prudential Financial Planning.

### Investment for growth

Investing circa £250 million of shareholders' funds into our infrastructure to improve customer service and business efficiency and drive long-term growth.

**+7.2 million** customers  
**£351 billion** total assets under management<sup>1</sup> across a broad range of strategies and asset classes

**£36 billion**  
PruFund assets under management

Launch of new M&G Global Listed Infrastructure Fund

**+5,400** adviser firms dealing with M&G Prudential

MyPru and MyM&G digital services for direct customers

Extension of SICAV fund platform for European growth

Roll out of new scalable, simplified investment platform through Aladdin implementation

Strategic partnership with Tata Consultancy Services leveraging digital capabilities to enhance customers' experience

# Our businesses and their performance continued

While our two brands occupy different market segments, both share a common philosophy of aiming to deliver excellent long-term customer outcomes, and both offer solutions powered by a world-class investment capability. Working together as M&G Prudential gives us new opportunities for growth by building on these shared values and strengths.

In the UK, where both M&G and Prudential products are distributed, we will be building on the great success of the PruFund range by broadening the existing proposition, making full use of M&G and Prudential's combined distribution network and making our customers' experiences – whether direct or advised – as good as possible throughout the lifetime of their products. Our digital transformation programme is essential to this, providing the infrastructure necessary to offer good value, state of the art solutions.

With over 15 years of experience in international distribution, offices in 18 countries and a new Luxembourg investment platform, we are well placed to continue to take advantage of the attractive growth opportunities in Europe and beyond. This includes retail distribution in Europe, and in international institutional markets, where our strong track record in private asset origination is a real competitive advantage.

## Investment for growth

In a world of low interest rates and increasing life expectancy, more people than ever need long-term savings and investment solutions. We also know that our customers have far higher expectations of service and value for money, thanks to new technology and digital disruption. Over the last 169 years we have had a proud track record of innovating to deliver good outcomes to our customers, but we need to invest in our business to continue to do so. Over the next five years, we will be investing circa £250 million of shareholders' funds in our business, including a new digital infrastructure which will improve customer service, accelerate product development and increase customer choice. Strategic partnerships, such as the recently announced Tata Consultancy Services partnership to enhance service for our UK savings and retirement customers, are an important part of these plans to improve customer outcomes. With a simpler, more efficient, digitally enabled business, we will respond quicker and better to our customers' needs, offer better value and compete at scale in our markets even more effectively.



**John Foley**  
Chief Executive  
M&G Prudential

### Notes

- 1 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
- 2 Europe includes AUM in Asia and South Africa.
- 3 ABI Mixed Investment 20 per cent – 60 per cent Shares (performance is net of charge). PruFund returns are also net of charge (0.65 per cent).

- 4 Quartile ranking based on ranking of the funds representative share class, net of fees, within their respective Investment Association (IA) or Morningstar sectors. Closed funds excluded. M&G total wholesale AUM was £79.7bn as at 31 December 2017, representing 23 per cent of the total M&G Prudential AUM. One year figures represent £78.1bn AUM, three year figures represent £76.1bn AUM, 5 year figures represent

£71.2bn AUM, fund manager tenure figures represent £78.2bn AUM. Performance figures in GBP, bid to bid, net income reinvested. Average fund manager tenure December 2017 = 6.1 years. Source: M&G Prudential, December 2017. IA and Morningstar Inc. combined UK and Pan-European peer groups as at end December 2017.

# Broad-based performance and strong growth in high quality business

I am pleased to report that Prudential's financial performance in 2017 has resulted in all of our 2017 financial objectives being met. Our progress across our KPIs reflects the benefits of our focus on driving growth in high-quality, recurring health and protection and fee business across our geographies, products and distribution channels.

Performance was broad-based across our business units led by our Asia businesses which delivered double digit growth in new business profit (up 12 per cent<sup>1</sup>), IFRS operating profit based on longer-term investment returns ('IFRS operating profit') (up 15 per cent<sup>1</sup>) and underlying free surplus generation<sup>3</sup> (up 19 per cent<sup>1</sup>). Asia achieved its 2017 financial objectives, demonstrating successful execution of its strategy, focusing on diversified recurring premium business, at scale. In the US, we saw good growth in fee income, driven by positive net inflows and favourable equity market conditions, which outweighed the expected reduction in the contribution from spread income.

During 2017 we combined M&G and our UK and Europe life business to form M&G Prudential. I am pleased to report that M&G Prudential asset management delivered record external net inflows of £17.3 billion, with overall assets under management<sup>4</sup> at a new high of £351 billion at the end of 2017. We are making good progress in delivering our merger and transformation programme, and remain on track to deliver our previously announced savings by the end of 2022.

Sterling continued to strengthen against most of the currencies in our major international markets over 2017. However, on an average basis, sterling exchange rates remain lower than 2016, contributing to a positive effect on the translation of results from our non-sterling operations in 2017. If sterling exchange rates remain at or above end 2017 levels over the remainder of 2018, this will act to depress our results on translation of our non-sterling operations in 2018 compared with 2017. To aid comparison of underlying progress, we continue to express and comment on the performance trends in our Asia and US operations on a constant currency basis.

Our performance in 2017 was also supported by favourable equity markets, which lifted average investment balances on which we earn fees. During the year the S&P 500 index increased 19 per cent, the FTSE 100 index 8 per cent and the MSCI Asia excluding Japan index 39 per cent. Long-term yields showed little movement in 2017 and therefore have had no material impact on 2017 performance versus 2016.

The key financial highlights in 2017 were as follows:

- **New business profit** was 12 per cent higher at £3,616 million (17 per cent on an actual exchange rate basis), underpinned by higher volumes with **APE sales** up 6 per cent (10 per cent on an actual exchange rate basis). In Asia, new business profit increased 12 per cent primarily as a result of prioritisation of health and protection products and positive pricing actions. Jackson's new business profit increased by 9 per cent, including the benefit of US tax reform. UK life new business profit grew by 28 per cent, driven by a 29 per cent increase in APE sales, supported by consumer demand for products offering access to our PruFund investment option.
- **Asset management net inflows** reached record levels, with M&G Prudential asset management reporting external net inflows of £17.3 billion (2016: net outflows of £8.1 billion) reflecting growth across its wholesale/direct and institutional businesses, and Eastspring delivering external net inflows of £3.1 billion (excluding money market funds) (2016: £1.8 billion on an actual exchange rate basis).
- **IFRS operating profit based on longer-term investment returns** was 6 per cent higher at £4,699 million (10 per cent higher on an actual exchange rate basis). IFRS operating profit from our Asia business grew by 15 per cent to £1,975 million, reflecting continued business momentum. In the US, IFRS operating profit increased by 3 per cent, reflecting mainly growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings. In the UK, M&G Prudential's total IFRS operating profit was 10 per cent higher than the prior year reflecting 6 per cent growth in the insurance business, with core<sup>5</sup> life operating profit stable at £597 million, and record asset management profit of £500 million resulting from the positive impact on earnings of net fund inflows, supportive markets and higher performance fees.
- **Total IFRS post tax profit** was up 21 per cent at £2,390 million (24 per cent on an actual exchange rate basis) and total EEV after-tax profit was 87 per cent higher at £8,751 million (94 per cent on an actual exchange rate basis). Total profit includes the impact of short-term fluctuations in financial assets held to back the commitments that we have made to our customers, and the related liabilities, and are reported outside the operating result which is based on longer-term investment return assumptions. In 2017 these principally arose within Jackson as discussed later in my report. Total profit after-tax includes the impact of the US tax reform, which generated an IFRS charge of £445 million from the re-measurement of US net deferred tax balances following the reduction in the corporate income tax rate and an EEV gain of £390 million which additionally includes the benefit of future profits being taxed at a lower rate. Reflecting this post tax profit, **Group IFRS shareholders'** equity was 10 per cent higher at £16.1 billion. Similarly, EEV basis shareholders' equity was up 15 per cent at £44.7 billion.

# Chief Financial Officer's report on the 2017 financial performance - Mark FitzPatrick continued

— **Underlying free surplus generation<sup>2,3</sup>**, our preferred measure of cash generation, from our life and asset management businesses, decreased by 1 per cent to £3,640 million (up 2 per cent on an actual exchange rate basis), after financing new business growth. Increased contributions from our Asia and UK businesses were balanced by a lower contribution from our US

business primarily as a result of non-recurrence of a transaction undertaken in 2016 to enhance local capital efficiency. We continue to focus on high-return new business with fast payback periods.

— **Group shareholders' Solvency II capital surplus<sup>6</sup>** was estimated at £13.3 billion at 31 December 2017, equivalent to a cover ratio of 202 per cent<sup>7</sup> (1 January 2017:

£12.5 billion, 201 per cent). The improvement in the period reflects the continuing strength of the Group's operating capital generation in excess of growing dividend payments to shareholders.

— **Full year ordinary dividend** increased by 8 per cent to 47 pence per share, reflecting our 2017 performance and our confidence in the future prospects of our Group.

## IFRS profit<sup>2</sup>

	Actual exchange rate			Constant exchange rate	
	2017 £m	2016 £m	Change %	2016 £m	Change %
<b>Operating profit before tax based on longer-term investment returns</b>					
<b>Asia</b>					
Long-term business	1,799	1,503	20	1,571	15
Asset management	176	141	25	149	18
<b>Total</b>	<b>1,975</b>	<b>1,644</b>	<b>20</b>	<b>1,720</b>	<b>15</b>
<b>US</b>					
Long-term business	2,214	2,052	8	2,156	3
Asset management	10	(4)	350	(4)	350
<b>Total</b>	<b>2,224</b>	<b>2,048</b>	<b>9</b>	<b>2,152</b>	<b>3</b>
<b>UK and Europe</b>					
Long-term business	861	799	8	799	8
General insurance commission	17	29	(41)	29	(41)
<b>Total insurance operations</b>	<b>878</b>	<b>828</b>	<b>6</b>	<b>828</b>	<b>6</b>
Asset management	500	425	18	425	18
<b>Total</b>	<b>1,378</b>	<b>1,253</b>	<b>10</b>	<b>1,253</b>	<b>10</b>
Other income and expenditure <sup>8</sup>	(775)	(694)	(12)	(700)	(11)
Total operating profit based on longer-term investment returns before tax, restructuring costs and interest received from tax settlement	4,802	4,251	13	4,425	9
Restructuring costs	(103)	(38)	(171)	(39)	(164)
Interest received from tax settlement	–	43	n/a	43	n/a
<b>Total operating profit based on longer-term investment returns before tax</b>	<b>4,699</b>	<b>4,256</b>	<b>10</b>	<b>4,429</b>	<b>6</b>
Non-operating items:					
Short-term fluctuations in investment returns on shareholder-backed business	(1,563)	(1,678)	7	(1,764)	11
Amortisation of acquisition accounting adjustments	(63)	(76)	17	(79)	20
Profit (loss) attaching to disposal of businesses	223	(227)	n/a	(244)	n/a
<b>Profit before tax</b>	<b>3,296</b>	<b>2,275</b>	<b>45</b>	<b>2,342</b>	<b>41</b>
Tax charge attributable to shareholders' returns	(906)	(354)	(156)	(360)	(152)
<b>Profit for the year</b>	<b>2,390</b>	<b>1,921</b>	<b>24</b>	<b>1,982</b>	<b>21</b>

## IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	2017 pence	2016 pence	Change %	2016 pence	Change %
Basic earnings per share based on operating profit after tax	145.2	131.3	11	136.8	6
Basic earnings per share based on total profit after tax	93.1	75.0	24	77.4	20

### IFRS operating profit based on longer-term investment returns

2017 total IFRS operating profit increased by 6 per cent (10 per cent on an actual exchange rate basis) to £4,699 million, with increased contributions from all of our core business units.

#### Asia total operating profit of

£1,975 million was 15 per cent higher than the previous year (20 per cent on an actual exchange rate basis). IFRS operating profit from life insurance operations increased 15 per cent to £1,799 million (20 per cent on an actual exchange rate basis), reflecting the continued growth of our in-force book of recurring premium business, with renewal insurance premiums<sup>9</sup> reaching £11.6 billion (2016: £9.5 billion on a constant exchange rate basis). Insurance margin was up 21 per cent, reflecting our continued focus on health and protection business. At a country level, we have seen improvement in all of our markets, with double-digit growth in IFRS operating profit in eight out of 12, led by Hong Kong and China (both increasing 38 per cent). Including money market funds and the assets managed for internal life operations, Eastspring's total assets under management increased to £138.9 billion (2016: £117.9 billion on an actual exchange rate basis), while the cost-income ratio was stable at 56 per cent (2016: 56 per cent), driving an 18 per cent increase in IFRS operating profit to £176 million (2016: £149 million).

#### US total operating profit at

£2,224 million increased by 3 per cent (9 per cent increase on an actual exchange rate basis), reflecting increased profit from our variable annuity business. US equity markets have continued to rise in 2017, which together with separate account net asset inflows of £3.5 billion, has led to separate account balances that were on average 17 per cent higher than the prior period. As a result, fee income increased 15 per cent to £2,343 million. Spread-based income decreased 10 per cent, as anticipated, reflecting the impact of lower yields on our fixed annuity portfolio and a reduced contribution from asset duration swaps. We expect these effects to continue to compress spread margins, although continued upwards movements in US yields may help to reduce the speed of the decline.

### UK and Europe total operating profit

was 10 per cent<sup>2</sup> higher at £1,378 million. Life insurance IFRS operating profit increased by 8 per cent to £861 million (2016: £799 million). Within this total, the contribution from our core<sup>5</sup> with-profits and in-force annuity business was £597 million (2016: £601 million), including an increased transfer to shareholders from the with-profits funds of £288 million (2016: £269 million) of which 15 per cent was from PruFund business (2016: 10 per cent). The balance of the life insurance result reflects the contribution from other activities which are not expected to recur to the same extent going forward. This includes, as anticipated, lower IFRS operating profit from the sale of annuities of £9 million (2016: £41 million) and a number of other items discussed below. Asset management IFRS operating profit increased 18 per cent to £500 million, driven by higher average assets under management and improved performance fees, together with a lower cost-income ratio of 58 per cent (2016: 59 per cent).

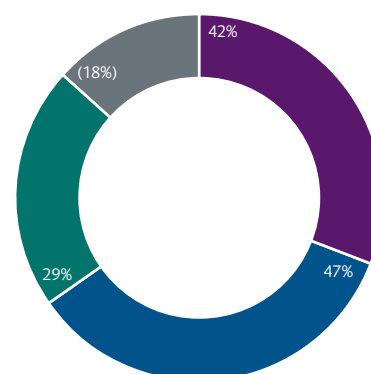
We took a number of actions during the year to optimise our asset portfolios and capital position, which generated profit of £276 million (2016: £332 million). Of this amount £31 million related to profit from longevity risk transactions (2016: £197 million) and £245 million from the effect of repositioning the fixed income asset portfolio (2016: £135 million). Favourable longevity assumption changes, reflecting updated actuarial mortality tables, contributed a further £204 million. This was offset partly by an increase of £225 million (2016: £175 million) in the provision related to the potential costs and related potential redress of reviewing internally vesting annuities sold without advice after 1 July 2008. The provision does not include potential insurance recoveries of up to £175 million.

#### Life insurance profit drivers

The increase in our IFRS operating profit levels reflects the growth in the scale of our operations, driven primarily by positive business flows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each year these increase as we write new business and collect regular premiums from existing customers and decrease as we pay claims

### IFRS operating profit by business<sup>2</sup>

£m (% vs 2016)



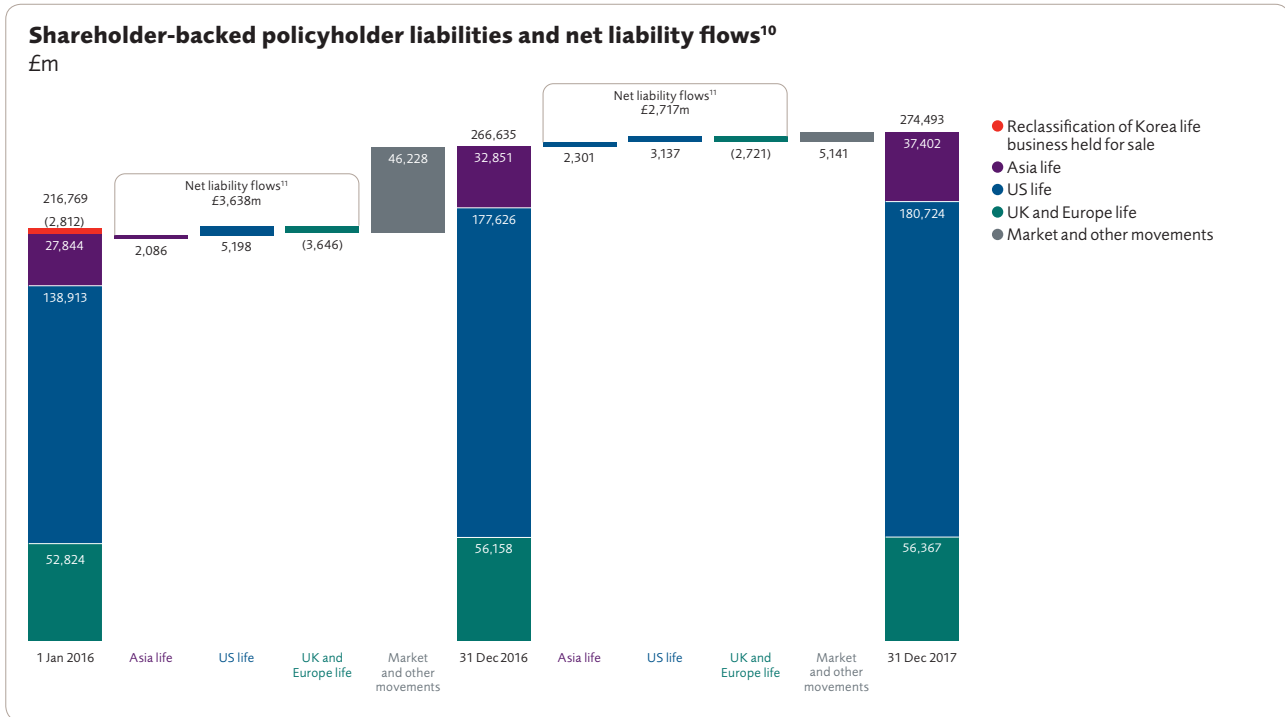
£4,699m  
+6% (+10% AER)

- Asia £1,975m, +15% (+20% AER)
- US £2,224m, +3% (+9% AER)
- UK and Europe £1,378m, +10%
- Others<sup>8</sup> £(878)m, -26%

and policies mature. The overall scale of these policyholder liabilities is relevant in the evaluation of our profit potential in that it reflects, for example, our ability to earn fees on the unit-linked element and indicates the scale of the insurance element, another key source of profitability for the Group.

Focusing on business supported by shareholder capital, which generates the majority of the life profit, in 2017 net flows into our businesses were overall positive at £2.7 billion driven by our US and Asian operations, as we continue to focus on both retaining our existing customers and attracting new business to drive long-term value creation. In the UK our shareholder liabilities includes the run-off of the in-force annuity portfolio following our effective withdrawal from selling new annuity business. This has been more than offset by inflows into the with-profits funds of £3.5 billion. Positive investment markets, offset partly by currency effects as sterling has strengthened over the period, increased liabilities by £5.1 billion. In total, business flows and market movements have increased shareholder-backed policyholder liabilities from £266.6 billion to £274.5 billion.

# Chief Financial Officer's report on the 2017 financial performance - Mark FitzPatrick continued



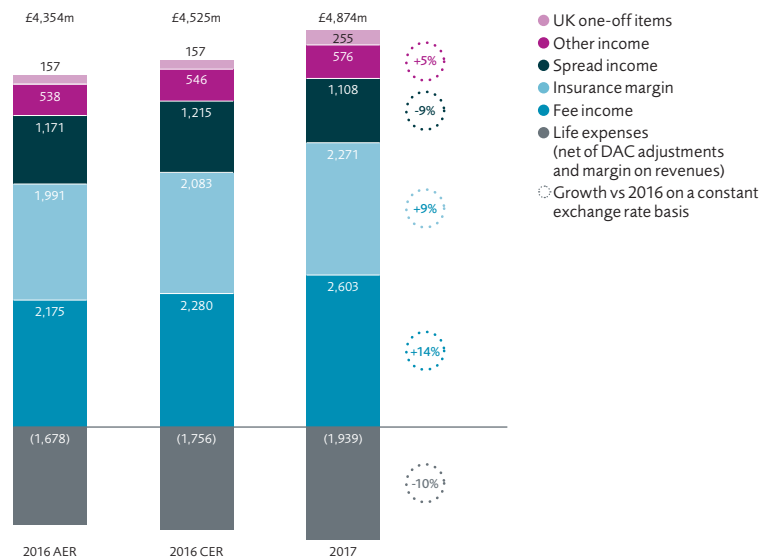
### Policyholder liabilities and net liability flows in with-profits business<sup>10,12</sup>

	2017 £m				2016 £m			
	Actual exchange rate				Actual exchange rate			
	At 1 January	Net liability flows <sup>11</sup>	Market and other movements	At 31 December	At 1 January	Net liability flows <sup>11</sup>	Market and other movements	At 31 December
Asia	29,933	4,574	1,930	36,437	20,934	3,696	5,303	29,933
UK and Europe	113,146	3,457	8,096	124,699	100,069	1,119	11,958	113,146
<b>Total Group</b>	<b>143,079</b>	<b>8,031</b>	<b>10,026</b>	<b>161,136</b>	<b>121,003</b>	<b>4,815</b>	<b>17,261</b>	<b>143,079</b>

Policyholder liabilities in our with-profits business have increased by 13 per cent to £161.1 billion reflecting the growing popularity of our participating funds in Asia and PruFund in the UK, as consumers seek protection from some of the short-term ups and downs of direct stock market investments by using an established smoothing process. Across our Asia and UK operations, net liability flows increased to £8.0 billion. As returns from these funds are smoothed and shared with customers, the emergence of shareholder profit is more gradual. This business, nevertheless, remains an important source of future shareholder value.

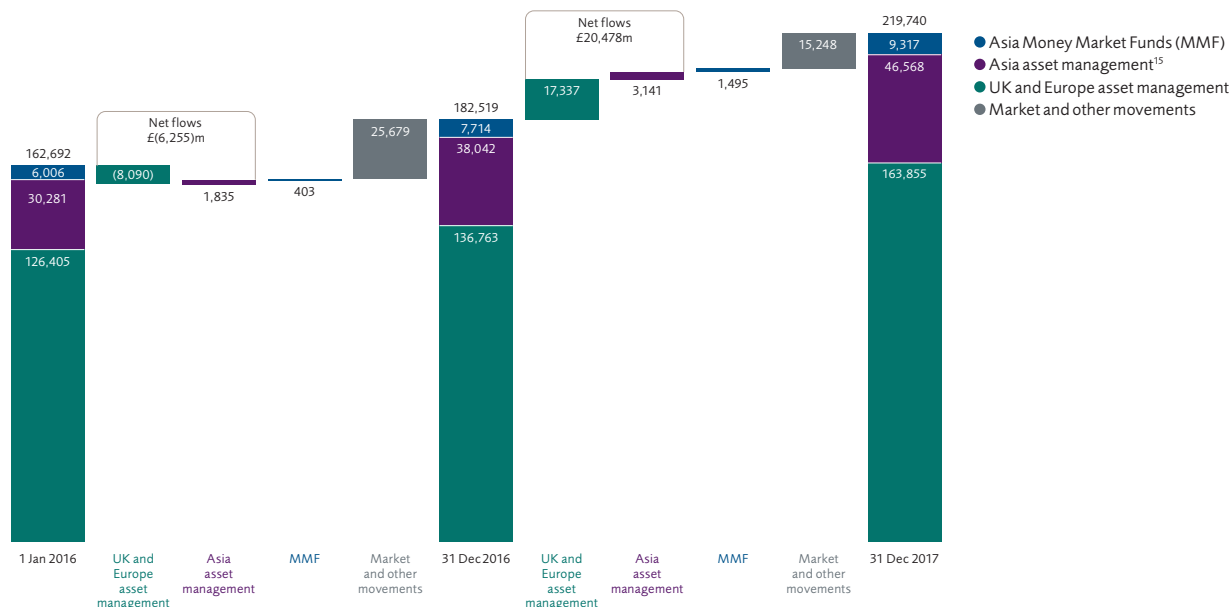
### Analysis of long-term insurance business IFRS operating profit by driver

£m (% vs 2016)



### Asset management external net flows and external funds under management<sup>13,14</sup>

£m



We continue to maintain our preference for high-quality sources of income such as insurance margin from life and health and protection business, and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle and prefer fee income to spread income because it is more capital-efficient. In line with this approach, on a constant exchange rate basis, insurance margin has increased by 9 per cent (up 14 per cent on an actual exchange rate basis) and fee income by 14 per cent (up 20 per cent on an actual exchange rate basis), while spread income decreased by 9 per cent (down 5 per cent on an actual exchange rate basis). Administration expenses increased to £2,297 million (2016: £2,025 million) as the business continues to expand. The expense margin has grown from 85 basis points to 88 basis points reflecting the continued increase in US producers selecting asset-based commissions which are treated as an administrative expense in this analysis.

#### Asset management profit drivers

Movements in asset management operating profit are also influenced primarily by changes in the scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations.

In 2017, average assets under management in our asset management businesses in the UK and Asia benefited from positive net inflows of assets and favourable markets,

driving higher fee revenues. Reflecting this, IFRS operating profit derived from asset management activities in M&G Prudential increased by 18 per cent to £500 million and in Eastspring by 18 per cent (up 25 per cent on an actual exchange rate basis) to £176 million.

M&G Prudential's external assets under management have benefited from a record level of net inflows, reflecting improvement in investment performance and supportive markets. External asset management net inflows totalled £17.3 billion (2016: net outflows of £8.1 billion), with significant contributions from European investors in the Optimal Income Fund, Global Floating Rate High Yield Fund and multi-asset range, and from institutional clients, notably within our public debt, illiquid credit strategies and infrastructure equity funds. External assets under management increased 20 per cent to £163.9 billion during the year. Internal assets benefiting from PruFund sales and favourable markets increased 7 per cent, taking total M&G Prudential assets under management to £350.7 billion (2016: £310.8 billion).

Eastspring also attracted good levels of external net inflows during the year across its equity, fixed income and balanced fund range, totalling £3.1 billion, excluding money market funds (2016: £1.8 billion on an actual exchange rate basis). Overall external assets under management increased by 22 per cent to £46.6 billion, combined with higher internal assets under management and

money market funds lifted Eastspring's total assets under management to £138.9 billion.

#### Other income and expenditure and restructuring costs<sup>8</sup>

Higher interest costs following the debt issued in 2016 and 2017, and restructuring costs of £103 million, as the business invests for the future, including UK and Europe infrastructure, contributed to an increase in net central expenditure of £139 million to £878 million (2016: £732 million on an actual exchange rate basis).

#### IFRS non-operating items<sup>8</sup>

IFRS non-operating items consist of short-term fluctuations in investment returns on shareholder-backed business of negative £1,563 million (2016: negative £1,764 million), the results attaching to disposal of businesses of £223 million (2016: negative £244 million), and the amortisation of acquisition accounting adjustments of negative £63 million (2016: negative £79 million) arising mainly from the REALIC business acquired by Jackson in 2012. The profit attributable to disposal of businesses relates to amounts in respect of the Korea life business sold in 2017 and the disposal of the US broker-dealer network in August 2017.

Short-term fluctuations in investment returns on shareholder-backed business represent the most significant component of non-operating items and are discussed further below.

# Chief Financial Officer's report on the 2017 financial performance – Mark FitzPatrick continued

## IFRS short-term fluctuations in investment returns on shareholder-backed business

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In 2017, the total short-term fluctuations in investment returns on shareholder-backed business were negative £1,563 million and comprised negative £1 million for Asia, negative £1,568 million in the US, negative £14 million in the UK and positive £20 million in other operations.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would rise typically when equity markets fall and long-term interest rates decline. Jackson includes the expected cost of hedging when pricing its products and charges fees for these guarantees which are used, as necessary, to purchase downside protection in the form of options and futures to mitigate the effect of equity market falls, and swaps and swaptions to cushion the impact of declines in long-term interest rates. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair valued, is asymmetrical to the movement in guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the capital and economics of the business from large movements in investment markets and accepts the variability in accounting results. The negative short-term fluctuations in

investment returns on shareholder-backed business of £1,568 million in the year are attributable mainly to the net value movement in the period of the hedge instruments held to manage market exposures and reflect the positive equity market performance in the US during the period.

## IFRS effective tax rates

In 2017, the effective tax rate on IFRS operating profit based on longer-term investment returns was 21 per cent, which is unchanged from 2016 (21 per cent).

The 2017 effective tax rate on the total IFRS profit was 27 per cent (2016: 16 per cent), reflecting the inclusion of a £445 million one-off charge on the re-measurement of US deferred tax balances using a rate of 21 per cent (previously 35 per cent) following the enactment in December 2017 of a comprehensive US tax reform package. Excluding this one-off charge, the 2017 effective tax rate would have been 14 per cent.

In addition to the impact on the IFRS profit, the re-measurement of US deferred tax balances also resulted in a separate benefit of £134 million recognised in other comprehensive income, in relation to changes to deferred tax on cumulative unrealised gains (net of DAC) on bonds which are taken directly through other comprehensive income.

The main driver of the Group's effective tax rate is the relative mix of the profits between jurisdictions with higher tax rates (such as Indonesia and Malaysia),

jurisdictions with lower tax rates (such as Hong Kong and Singapore), and jurisdictions with rates in between (such as the UK, and now from 2018, the US).

Once the US tax changes are fully reflected, we would expect a favourable impact on the Group's effective tax rate. The US operating profit effective tax rate is expected to be circa 18 per cent (previously 28 per cent), and the overall Group operating profit effective tax rate is likely to settle in the range of 16 per cent to 18 per cent.

## Total tax contribution

The Group continues to make significant tax contributions in the jurisdictions in which it operates, with £2,903 million remitted to tax authorities in 2017. This was similar to the equivalent amount of £2,887 million in 2016.

## Tax strategy

In May 2017 the Group published its tax strategy, which in addition to complying with the mandatory UK (Finance Act 2016) requirements, also included a number of additional disclosures, including a breakdown of revenues, profits and taxes for all jurisdictions where more than £5 million tax was paid. This disclosure was included as a way of demonstrating that our tax footprint (ie where we pay taxes) is consistent with our business footprint. An updated version of the tax strategy, including 2017 data, will be available on the Group's website before 31 May 2018.

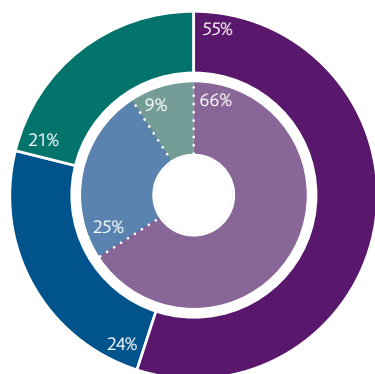
## New business performance

### Life EEV new business profit and APE new business sales (APE sales)

	Actual exchange rate						Constant exchange rate			
	2017 £m		2016 £m		Change %		2016 £m		Change %	
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit
Asia	3,805	2,368	3,599	2,030	6	17	3,773	2,123	1	12
US	1,662	906	1,561	790	6	15	1,641	830	1	9
UK and Europe	1,491	342	1,160	268	29	28	1,160	268	29	28
Total Group	6,958	3,616	6,320	3,088	10	17	6,574	3,221	6	12



### New business performance £m (% vs 2016)



#### Split of APE new business sales £6,958m, +6% (+10% AER)

- Asia £3,805m, +1% (+6% AER)
- US £1,662m, +1% (+6% AER)
- UK and Europe £1,491m, +29%

#### Split of new business profit £3,616m, +12% (+17% AER)

- Asia £2,368m, +12% (+17% AER)
- US £906m, +9% (+15% AER)
- UK and Europe £342m, +28%

**Life insurance new business profit** was up 12 per cent (17 per cent on an actual exchange rate basis) to £3,616 million, and **Life insurance new business APE sales** increased by 6 per cent (10 per cent on an actual exchange rate basis) to £6,958 million.

In **Asia**, new business profit was 12 per cent higher at £2,368 million (17 per cent on an actual exchange rate basis), primarily reflecting the beneficial impact of our strategic emphasis on increasing sales from health and protection business and pricing actions.

Our focus on quality is undiminished with regular premium contracts accounting for 94 per cent of APE sales and supporting a 26 per cent increase in health and protection new business profit. This favourable mix provides a high level of recurring income and an earnings profile that is significantly less correlated to investment markets.

In Hong Kong new business profit has increased by 8 per cent as we continue to focus on driving growth in health and protection business. This targeted shift to higher margin, but lower case size protection business, aligned with the de-emphasis of broker sales and the expected moderation in the level of sales from Mainland China has, as we reported previously, resulted in a 14 per cent reduction in Hong Kong APE sales.

Outside Hong Kong, new business profit increased by 20 per cent, in line with APE sales which were up 17 per cent. Our performance remains broad-based, with double digit growth in new business profit across both agency and bancassurance channels. In China, new business profit more than doubled, driven by higher sales and a significant uplift in regular premium health and protection business from our increased scale and productivity in the agency channel, together with a positive contribution from our bancassurance partners. In Singapore, new business profit increased by 22 per cent supported by APE sales growth of 21 per cent, reflecting growth across both agency and bancassurance channels. Indonesia's APE sales grew 2 per cent while new business profit declined 5 per cent due to product mix.

In the **US**, new business profit increased by 9 per cent to £906 million (up 15 per cent on an actual exchange rate basis) reflecting a modest increase in APE sales, up 1 per cent (6 per cent on an actual exchange rate basis) and the positive impact on future profit from a reduction in corporate income tax rates. Uncertainty regarding the application and implementation of the US Department of Labor Fiduciary Duty Rule has led to continued pressure on industry sales in 2017 which were down 11 per cent over the first nine months of the year. Despite this, Jackson's variable annuity sales increased by 1 per cent, with the economics on new business in variable annuities remaining extremely attractive, with high internal rates of return and short payback periods. Net inflows into Jackson's separate account asset balances, which drive fee-based earnings on variable annuity business, remained positive at £3.5 billion. More favourable market conditions relating to the institutional product market also provided Jackson with the opportunity to write APE sales of £232 million (2016: £193 million).

In our **UK life business**, our strategy of extending customer access to PruFund's with-profits investment option via additional product wrappers continues to drive growth in new business profit, which increased to £342 million, up 28 per cent. APE sales increased 29 per cent to £1,491 million. We have seen notable success with the build out of PruFund, which has contributed significantly towards an APE sales increase in individual pensions (up 110 per cent), income drawdown (up 35 per cent) and ISAs (up 7 per cent). Reflecting this performance, total PruFund assets under management of £35.9 billion as at 31 December 2017 were 46 per cent higher than at the start of the year.

# Chief Financial Officer's report on the 2017 financial performance - Mark FitzPatrick continued

## Free surplus generation<sup>2,3</sup>

	Actual exchange rate			Constant exchange rate	
	2017 £m	2016 £m	Change %	2016 £m	Change %
<i>Free surplus generation</i>					
Asia	1,562	1,335	17	1,405	11
US	1,582	1,863	(15)	1,957	(19)
UK and Europe	1,486	1,287	15	1,287	15
Underlying free surplus generated from in-force life business and asset management before restructuring costs	4,630	4,485	3	4,649	-
Restructuring costs	(77)	(16)	(381)	(16)	(381)
Underlying free surplus generated from in-force life business and asset management	4,553	4,469	2	4,633	(2)
Investment in new business	(913)	(903)	(1)	(942)	3
Underlying free surplus generated	3,640	3,566	2	3,691	(1)
Market related movements, timing differences and other non-operating movements	(1,012)	(432)			
Profit (loss) attaching to disposal of businesses	172	(86)			
Net cash remitted by business units	(1,788)	(1,718)			
Total movement in free surplus	1,012	1,330			
Free surplus at end of year	7,578	6,566			

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and is based on the capital regimes which apply locally in the various jurisdictions in which our life businesses operate. For life insurance operations it represents amounts maturing from the in-force business during the year, net of amounts reinvested in writing new business. For asset management it equates to post-tax IFRS operating profit for the period.

We drive free surplus generation by targeting markets and products that have low capital strain, high-return and fast payback profiles and by delivering both good service and value to improve customer retention. Our ability to generate both growth and cash is a distinctive feature of Prudential.

In 2017, underlying free surplus generation from our life insurance and asset management business decreased by 1 per cent to £3,640 million (increased 2 per cent on an actual exchange rate basis), reflecting increased contributions from our Asia and UK businesses, a

non-recurrence of a one-off prior year gain from our US business, and higher restructuring costs. In Asia, growth in the in-force life portfolio, combined with post-tax asset management profit from Eastspring, contributed to free surplus generation of £1,562 million, up 11 per cent. In the US, in-force free surplus generation decreased by 19 per cent reflecting the non-recurrence of a £247 million benefit from contingent financing actions taken in 2016, together with lower favourable experience variances. In the UK, in-force free surplus generation increased by 15 per cent to £1,486 million, attributable to growth in asset management earnings, the adoption of the CMI 2015 assumption basis and portfolio and capital management actions including longevity reinsurance to improve the solvency position of our UK life business of £400 million (2016: £351 million). The result includes an increase in the provision for the costs of the UK review of past non-advised annuity sales practices and related potential redress, which has a post-tax impact of £187 million in 2017 (2016: £145 million).

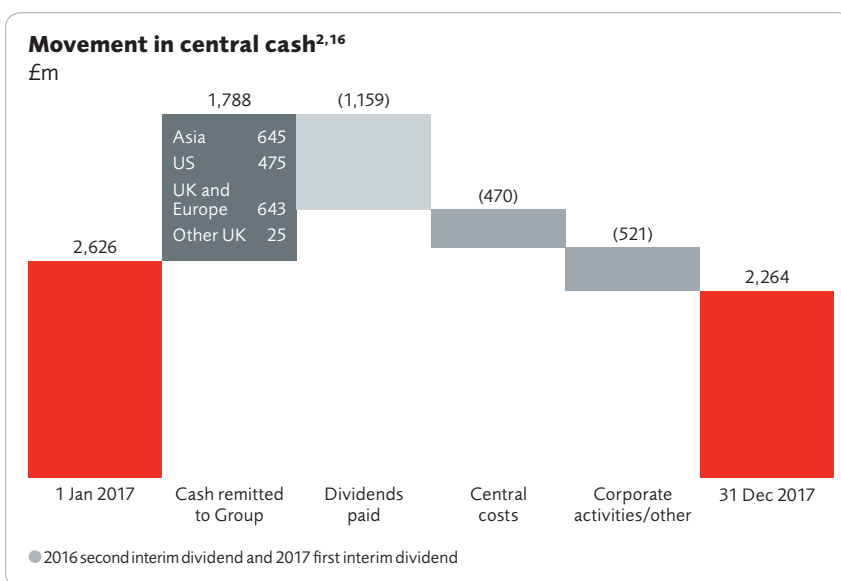
Although new business profit increased by 12 per cent, the amount of free surplus invested in writing new life business in the period was lower at £913 million (2016: £942 million) reflecting a greater proportion of sales in Asia and the UK where strain is lower, and a higher proportion of variable annuity premium being allocated to the separate account in the US.

After funding cash remittances from the business units to the Group, recognition of the profit attaching to the disposal of businesses, and other movements, which includes adverse currency effects and the impact of US tax reform, the closing value of free surplus in our life and asset management operations was £7.6 billion at 31 December 2017.

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

## Business unit remittance<sup>2,16</sup>

	Actual exchange rate	
	2017 £m	2016 £m
Net cash remitted by business units:		
Asia	645	516
US	475	420
UK and Europe	643	590
Other UK (including Prudential Capital)	25	192
Net cash remitted by business units	1,788	1,718
Holding company cash at 31 December	2,264	2,626



Cash remitted to the corporate centre in 2017 amounted to £1,788 million, driven by higher remittances from Asia. For the first time, our Asia business unit is the largest contributor<sup>17</sup> to cash in the Group, demonstrating the quality and scale of its growth. Jackson made sizeable remittances of £475 million. The remittance from M&G Prudential of £643 million was 9 per cent higher than the combined remittance in 2016. Prudential Capital contributed a further £25 million.

Cash remitted to the Group in 2017 was used to meet central costs of £470 million (2016: £416 million) and pay the 2016 second interim and 2017 first interim dividends respectively. These movements and other corporate cash flows, including a net reduction in core structural borrowings and the impact of currency movements, led to holding company cash decreasing from £2,626 million to £2,264 million over 2017.

# Chief Financial Officer's report on the 2017 financial performance – Mark FitzPatrick continued

## Post-tax profit – EEV<sup>2</sup>

	Actual exchange rate			Constant exchange rate	
	2017 £m	2016 £m	Change %	2016 £m	Change %
<b>Post-tax operating profit based on longer-term investment returns</b>					
<b>Asia operations</b>					
Long-term business	3,705	3,074	21	3,220	15
Asset management	155	125	24	132	17
Total	3,860	3,199	21	3,352	15
<b>US operations</b>					
Long-term business	2,143	1,971	9	2,071	3
Asset management	7	(3)	333	(4)	275
Total	2,150	1,968	9	2,067	4
<b>UK and Europe operations</b>					
Long-term business	1,015	643	58	643	58
General insurance commission	13	23	(43)	23	(43)
Total insurance operations	1,028	666	54	666	54
Asset management	403	341	18	341	18
Total	1,431	1,007	42	1,007	42
Other income and expenditure <sup>18</sup>	(746)	(682)	(9)	(688)	(8)
Post-tax operating profit based on longer-term investment returns before restructuring costs and interest received from tax settlement	6,695	5,492	22	5,738	17
Restructuring costs <sup>18</sup>	(97)	(32)	(203)	(32)	(203)
Interest received from tax settlement	–	37	n/a	37	n/a
<b>Post-tax operating profit based on longer-term investment returns</b>	<b>6,598</b>	<b>5,497</b>	<b>20</b>	<b>5,743</b>	<b>15</b>
Non-operating items:					
Short-term fluctuations on investment returns	2,111	(507)	516	(567)	472
Effect of changes in economic assumptions	(102)	(60)	(70)	(54)	(89)
Mark to market value movements on core structural borrowings	(326)	(4)	(8,050)	(4)	(8,050)
Impact of US tax reform	390	–	n/a	–	n/a
Profit (loss) attaching to disposal of businesses	80	(410)	n/a	(445)	n/a
<b>Post-tax profit for the year</b>	<b>8,751</b>	<b>4,516</b>	<b>94</b>	<b>4,673</b>	<b>87</b>

## Earnings per share

	Actual exchange rate			Constant exchange rate	
	2017 pence	2016 pence	Change %	2016 pence	Change %
Basic earnings per share based on post-tax operating profit	257.0	214.7	20	224.3	15
Basic earnings per share based on post-tax total profit	340.9	176.4	93	182.5	87

### EEV operating profit

On an EEV basis, Group post-tax operating profit based on longer-term investment return increased by 15 per cent (up 20 per cent on an actual exchange rate basis) to £6,598 million in 2017.

EEV operating profit includes new business profit from the Group's life business, which increased by 12 per cent (up 17 per cent on an actual exchange rate basis) to £3,616 million. It also includes in-force life business profit of £3,247 million, which was 20 per cent higher than prior year (up 25 per cent on an actual exchange rate basis), primarily reflecting the growth in our in-force business. This is most evident in the profit from the unwind of the in-force

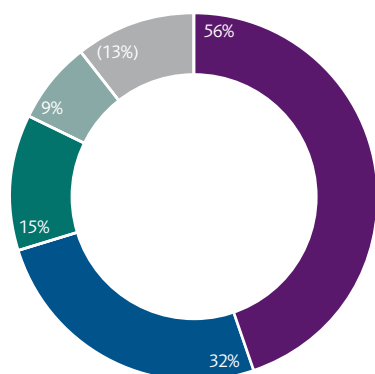
business, which was 10 per cent higher at £2,166 million (2016: £1,962 million). Experience and assumption changes were positive at £1,081 million (2016: £751 million), reflecting our ongoing focus on managing the in-force book for value.

In **Asia**, EEV life operating profit was up 15 per cent to £3,705 million, reflecting growth in new business profit of 12 per cent at £2,368 million. In-force profit was 22 per cent higher at £1,337 million reflecting the increased value of in-force business and positive assumption changes and experience as the business continues to grow with discipline.

**Jackson's** EEV life operating profit was up 3 per cent to £2,143 million, reflecting a 9 per cent increase in new business profit to £906 million and a stable contribution from in-force profit of £1,237 million, which included favourable operating assumption changes and experience variances of £543 million (2016: £628 million), related largely to persistency and mortality effects. The increase in our US EEV new business profit reflects the positive impact on future profits from lower tax rates.

### EEV operating profit by business<sup>2</sup>

£m (% vs 2016)



£6,598m  
+15% (+20% AER)

- Asia life £3,705m, +15% (+21% AER)
- US life £2,143m, +3% (+9% AER)
- UK and Europe life £1,015m, +58%
- Asset management and general insurance £578m, +17% (+19% AER)
- Other<sup>18</sup> £(843)m, -23% (-25% AER)

In the **UK and Europe**, EEV life operating profit increased by 58 per cent to £1,015 million (2016: £643 million). The increase was driven by a 28 per cent increase in new business profit, and higher in-force profit including a £195 million benefit from revisions to longevity assumptions following adoption of updated actuarial mortality projections under CMI 2015<sup>19</sup>. Profits arising from actions undertaken to improve solvency were more than offset by an increase in the provision related to the potential costs and related potential redress of reviewing internally vesting annuities sold without advice after 1 July 2008.

## Capital position, financing and liquidity

### Capital position

#### Analysis of movement in Group shareholder Solvency II surplus<sup>20</sup>

	2017 £bn	2016 £bn
<b>Solvency II surplus at 1 January</b>	<b>12.5</b>	<b>9.7</b>
Operating experience	3.6	2.7
Non-operating experience (including market movements)*	(0.6)	(1.1)
Other capital movements		
Subordinated debt (redemption)/issuance	(0.2)	1.2
Foreign currency translation impacts	(0.7)	1.6
Dividends paid	(1.2)	(1.3)
Model changes	(0.1)	(0.3)
<b>Estimated Solvency II surplus at 31 December</b>	<b>13.3</b>	<b>12.5</b>

\* 2017 includes a £(0.6) billion reduction in deferred tax assets following US tax reform.

The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk has resulted in an increase in the Group's shareholders' Solvency II capital surplus which is estimated at £13.3 billion<sup>6,7</sup>, at 31 December 2017 (equivalent to a solvency ratio of 202 per cent), compared with £12.5 billion (201 per cent) at 31 December 2016. In 2017 we generated £3.6 billion of operating capital. This was offset by dividends to shareholders, net repayment of subordinated debt, adverse foreign currency effects and the £0.6 billion reduction in statutory deferred tax assets following US tax reform.

Prudential has been designated as a Global Systemically Important Insurer (G-SII) and is monitoring and engaging with the PRA on the development and potential impact of the policy measures associated with such a designation.

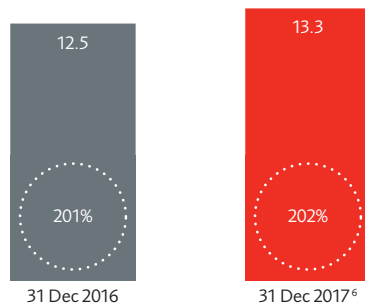
#### Local statutory capital

All of our subsidiaries continue to hold appropriate capital levels on a local regulatory basis. In the UK, at 31 December 2017 The Prudential Assurance Company Limited and its subsidiaries<sup>21</sup> had an estimated Solvency II shareholder surplus<sup>22</sup> of £6.1 billion (equivalent to a cover ratio of 178 per cent) and a with-profits surplus<sup>23</sup> of £4.8 billion (equivalent to a cover ratio of 201 per cent). In the US, following the enactment in December 2017 of a comprehensive reform package, a £628 million reduction in the level of the statutory net admitted deferred tax asset more than offset operational capital formation, resulting in a risk based capital ratio of 409 per cent (2016: 485 per cent).

#### Debt portfolio

The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK portfolio and 97 per cent of our US portfolio are investment grade<sup>29</sup>. During 2017, default losses were minimal and reported impairments across the UK and US portfolios were £2 million (2016: £35 million).

### Solvency II surplus<sup>20</sup> £bn



○ Solvency II capital ratio

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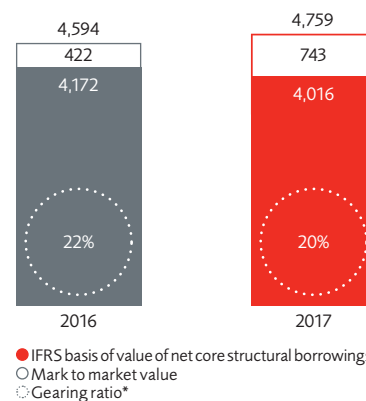
## Financing and liquidity

The Group had central cash resources of £2.3 billion at 31 December 2017 (31 December 2016: £2.6 billion). Total core structural borrowings reduced by £0.5 billion, from £6.8 billion to £6.3 billion, with the issue of US\$750 million (£547 million at 31 December 2017) 4.875 per cent tier 2 perpetual subordinated debt in October 2017 being more than offset by the redemption of US\$1 billion (£741 million at 31 December 2017) 6.5 per cent tier 2 perpetual subordinated debt in December 2017.

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place an unlimited global commercial paper programme. As at 31 December 2017, we had issued commercial paper under this programme totalling US\$650 million, to finance non-core borrowings.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities provided by 19 major international banks, expiring in 2022. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 31 December 2017. The medium-term note programme, the US shelf programme (platform for issuance of SEC registered public bonds in the US market), the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a flexible funding capacity.

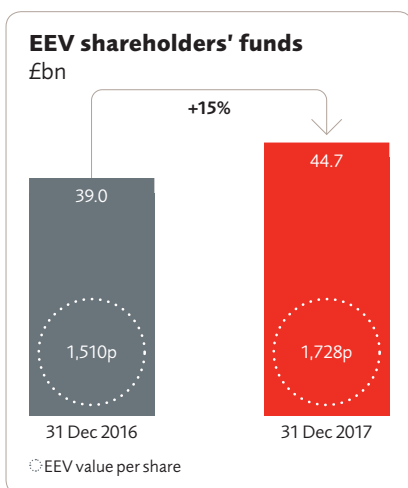
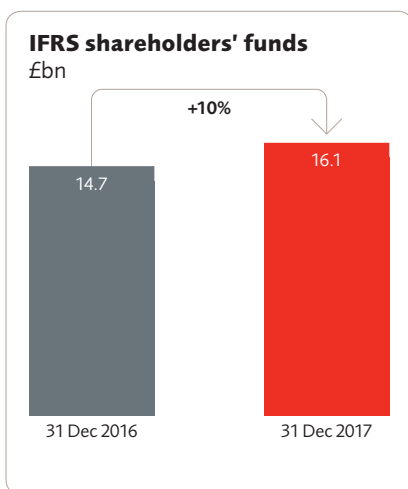
## Net core structural borrowings £m (EEV basis)



\* Net core structural borrowings as proportion of IFRS shareholders' funds plus net debt, as set out in note II(d) of the Additional unaudited financial information.

## Shareholders' funds

	IFRS		EEV	
	2017 £m	2016 £m	2017 £m	2016 £m
<b>Profit after tax for the year<sup>24</sup></b>	<b>2,389</b>	<b>1,921</b>	<b>8,750</b>	<b>4,516</b>
Exchange movements, net of related tax	(409)	1,161	(2,045)	4,211
Cumulative exchange gain of Korea life business recycled to profit and loss account	(61)	–	–	–
Unrealised gains and losses on Jackson fixed income securities classified as available for sale <sup>25</sup>	486	31	–	–
Dividends	(1,159)	(1,267)	(1,159)	(1,267)
Market to market movements on Jackson assets backing surplus and required capital	–	–	40	(11)
Other	175	(135)	144	(367)
<b>Net increase in shareholders' funds</b>	<b>1,421</b>	<b>1,711</b>	<b>5,730</b>	<b>7,082</b>
Shareholders' funds at 1 January	14,666	12,955	38,968	31,886
<b>Shareholders' funds at 31 December</b>	<b>16,087</b>	<b>14,666</b>	<b>44,698</b>	<b>38,968</b>
<b>Shareholders' value per share<sup>26</sup></b>	<b>622p</b>	<b>568p</b>	<b>1,728p</b>	<b>1,510p</b>
<b>Return on shareholders' funds<sup>27</sup></b>	<b>25%</b>	<b>26%</b>	<b>17%</b>	<b>17%</b>



Group IFRS shareholders' funds at 31 December 2017 increased by 10 per cent to £16.1 billion (31 December 2016: £14.7 billion on an actual exchange rate basis), driven by the strength of the operating result, offset by dividend payments of £1,159 million. During the period, UK sterling has strengthened relative to the US dollar and various Asian currencies. With approximately 50 per cent of the Group's IFRS net assets (71 per cent of the Group's EEV net assets) denominated in non-sterling currencies, this generated a negative exchange rate movement on the net assets in the period. In addition, the moderate decline in US long-term interest rates between the start and the end of the reporting period produced unrealised gains on fixed income securities held by Jackson accounted through other comprehensive income.

The Group's EEV basis shareholders' funds also increased by 15 per cent to £44.7 billion (31 December 2016: £39.0 billion on an actual exchange rate basis). On a per share basis the Group's embedded value at 31 December 2017 equated to 1,728 pence, up from 1,510 pence at 31 December 2016.

### Corporate transactions Intention to demerge the Group's UK businesses and sale of £12.0 billion<sup>30</sup> UK annuity portfolio

In March 2018, the Group announced its intention to demerge its UK and Europe businesses ('M&G Prudential') from Prudential plc, resulting in two separately listed companies. On completion of the demerger, shareholders will hold interests in both Prudential plc and M&G Prudential.

In preparation for the UK demerger process, and to align the ownership of the Group's businesses with their operating structures, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

M&G Prudential agreed in March 2018 to the sale of £12.0 billion<sup>30</sup> of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion<sup>30</sup> of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. The capital benefit of this transaction will be retained within the Group to support the demerger process.

The IFRS liabilities relating to M&G Prudential's total UK shareholder annuity portfolio as at 31 December 2017 were £32.6 billion. The UK annuity business being sold contributed around £140 million towards UK life insurance core<sup>5</sup> IFRS operating profit before tax of £597 million in 2017. Total M&G Prudential IFRS operating profit before tax was £1,378 million in 2017.

Based on asset and liability values as at 31 December 2017, the transaction is estimated to give rise to a pre-tax IFRS loss of around £500 million in the first half of 2018, alongside the de-risking being achieved.

Prudential plc's Hong Kong subsidiaries which are subject to legal transfer from The Prudential Assurance Company Limited to Prudential Corporation Asia Limited Hong Kong Limited, and its general insurance business, Prudential General Insurance Hong Kong Limited. Hong Kong will continue to be included in the segmental reporting of Asia's IFRS and embedded value results. The transfers will be subject to regulatory approval.

The sale of the UK annuity portfolio and the transfer of Prudential plc's Hong Kong subsidiaries to Asia are expected to complete by the end of 2019. Assuming that these actions had both been completed as at 31 December 2017, the Group's embedded value of £44.7 billion is estimated to reduce by approximately £300 million, reflecting the loss of future profits on the portion of annuity liabilities being sold.

The estimated pro forma impact on the Group shareholder Solvency II capital position, assuming that these actions had both been completed as at 31 December 2017, is an increase in surplus of £0.3 billion and an increase in the shareholder solvency ratio of 6 percentage points.

# Chief Financial Officer's report on the 2017 financial performance – Mark FitzPatrick continued

## Pro forma estimated Group shareholder Solvency II capital position

	Own funds £bn	Solvency capital requirement £bn	Surplus £bn	Ratio %
31 December 2016 as reported	24.8	12.3	12.5	201
31 December 2017 as reported	26.4	13.1	13.3	202
31 December 2017 pro forma estimate*	26.2	12.6	13.6	208

\* The pro forma estimate assumes that the partial sale of the UK annuity portfolio and the transfer of Prudential plc's Hong Kong subsidiaries to Asia had both been completed as at 31 December 2017.

On the same basis, the estimated pro forma impact on the shareholder Solvency II capital position of the UK regulated insurance entity, The Prudential Assurance Company Limited, is provided in the table below. This pro forma solvency position reflects the reduced risk exposures in the UK insurance entity after the partial annuity sale and Hong Kong transfer.

## Pro forma estimated The Prudential Assurance Company Limited shareholder Solvency II capital position

	Own funds £bn	Solvency capital requirement £bn	Surplus £bn	Ratio %
31 December 2016 as reported	12.0	7.4	4.6	163
31 December 2017 as reported	14.0	7.9	6.1	178
31 December 2017 pro forma estimate*	8.5	5.7	2.8	150

\* The pro forma estimate assumes that the partial sale of the UK annuity portfolio and the transfer of Prudential plc's Hong Kong subsidiaries to Asia had both been completed as at 31 December 2017. In relation to the sale of the UK annuity portfolio, this estimate includes a £1.3 billion reduction in the Solvency Capital Requirement (SCR) and a £0.2 billion decrease in Own Funds, resulting in an increase in capital surplus of £1.1 billion, of which £0.6 billion is expected to be recognised in the UK capital position as at 30 June 2018 under the reinsurance agreement. In relation to the Hong Kong transfer, the impact on the SCR allows for the release of the Hong Kong business standalone SCR of £2.0 billion, partially offset by the removal of diversification benefits between UK and Hong Kong of £1.1 billion.

### Entrance into Nigeria

In July 2017 the Group acquired a majority stake in Zenith Life of Nigeria and formed exclusive bancassurance partnerships with Zenith Bank in Nigeria and Ghana. The acquisition and bancassurance partnerships will see Prudential enter the market in Nigeria, Africa's largest economy, with a population of over 180 million. This expands Prudential's regional platform in Africa following the launch of businesses in Ghana and Kenya in 2014, in Uganda in 2015 and Zambia in 2016.

### Disposal of Korea life

In May 2017, the Group completed the sale of the Group's life insurance subsidiary in Korea, PCA Life Insurance Co. Ltd to Mirae Asset Life Insurance Co. Ltd. for KRW170 billion (equivalent to £117 million at 17 May 2017 closing rate).

### Disposal of broker-dealer network in the US

In August 2017, the Group, through its subsidiary National Planning Holdings, Inc. ('NPH') sold its US independent broker-dealer network to LPL Financial LLC for an initial purchase price of US\$325 million (equivalent to £252 million at 15 August 2017).

### Dividend

The Board has decided to increase the full-year ordinary dividend by 8 per cent to 47 pence per share, reflecting our 2017 financial performance and our confidence in the future prospects of the Group. In line with this, the Directors have approved a second interim ordinary dividend of 32.5 pence per share (2016: 30.57 pence per share).

The Group's dividend policy remains unchanged. The Board will maintain focus on delivering a growing ordinary dividend. In line with this policy, Prudential aims to grow the ordinary dividend by 5 per cent per annum. The potential for additional distributions will continue to be determined after taking into account the Group's financial flexibility across a broad range of financial metrics and an assessment of opportunities to generate attractive returns by investing in specific areas of the business<sup>28</sup>.



**Mark FitzPatrick**  
Chief Financial Officer



## Notes

- 1 Increase stated on a constant exchange rate basis.
- 2 The 2016 comparative results have been re-presented from those published previously, following reassessment of the Group's operating segments as described in note B1.3 of the IFRS financial statements.
- 3 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 11 of the EEV basis results. Free surplus represents 'underlying free surplus' based on operating movements and excludes market movements, foreign exchange, capital movements, shareholders' other income and expenditure and restructuring and Solvency II implementation costs arising centrally.
- 4 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
- 5 Core refers to the underlying profit of the UK and Europe insurance business excluding the effect of, for example, management actions to improve solvency and material assumption changes. Details of these are set out in note I(d) of the Additional unaudited financial information.
- 6 The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
- 7 Before allowing for second interim ordinary dividend.
- 8 Refer to note B1.1 in IFRS financial statements for the breakdown of other income and expenditure and other non-operating items.
- 9 Gross earned premiums for contracts in second and subsequent years, comprising Asia segment IFRS gross earned premium of £15.7 billion less gross earned premiums relating to new regular and single premiums of £5.7 billion, plus renewal premiums from joint ventures of £1.6 billion, and excluding any amounts relating to the sold Korea life business.
- 10 Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures and associates in Asia.
- 11 Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
- 12 Includes Unallocated surplus of with-profits business.
- 13 Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
- 14 For our asset management business the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing between those which are external to the Group and those held by the insurance business and included on the Group balance sheet. This is analysed in note II(b) of the Additional unaudited financial information.
- 15 Net inflows exclude Asia Money Market Fund (MMF) inflows of £1,495 million (2016: net inflows £403 million). External funds under management exclude Asia MMF balances of £9,317 million (2016: £7,714 million).
- 16 Net cash remitted by business units are included in the Holding company cash flow, which is disclosed in detail in note II(a) of the Additional unaudited financial information.
- 17 Based on the 2017 operating segments.
- 18 Refer to the EEV basis supplementary information – Post-tax operating profit based on longer-term investment returns and Post-tax summarised consolidated income statement, for further detail on other income and restructuring costs.
- 19 Continuous Mortality Investigation 2015 mortality improvements model.
- 20 The methodology and assumptions used in calculating the Solvency II capital results are set out in note II(f) of the Additional unaudited financial information.
- 21 The insurance subsidiaries of The Prudential Assurance Company Limited are Prudential General Insurance Hong Kong Limited, Prudential Hong Kong Limited, Prudential International Assurance plc and Prudential Pensions Limited.
- 22 The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
- 23 The estimated solvency position includes management's calculation of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.
- 24 Excluding profit for the year attributable to non-controlling interests.
- 25 Net of related charges to deferred acquisition costs and tax.
- 26 Closing IFRS shareholders' funds divided by issued shares, as set out in note II(e) of the Additional unaudited financial information. Closing EEV shareholders' funds divided by issued shares, as set out in note II(n) of the Additional unaudited financial information.
- 27 Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds, as set out in notes II(c) and II(m) of the Additional unaudited financial information.
- 28 Refer to note 11 on the parent company financial statements for further detail on the distributable profits of Prudential plc.
- 29 Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, internal ratings have been used.
- 30 Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

# Generating value through selective exposure to risk

2017 was, in many respects, a year of global geopolitical transition. Popular discontent was one of the driving factors, shifting the political landscape in many countries, in particular in the US and across Western Europe. The nature of technology risks evolved during the year, with high profile and untargeted attacks affecting companies around the world. Despite all this, financial markets appeared largely unperturbed during 2017 with low volatility and steady and broad global economic growth, and the first steps were taken toward monetary policy tightening in key economies.

As in previous years, we continue to maintain a sustained focus on managing prevailing market conditions and macroeconomic uncertainty arising from the global environment. Looking internally, in August 2017 we announced our intention to combine M&G and our UK life business to form M&G Prudential, allowing us better to leverage our scale and capabilities. Change inherently carries risk, but we will manage and minimise this appropriately in order to provide better outcomes for our customers.

Our results show that, even in times of unpredictability, we can generate value for our shareholders by taking selective exposure to risks that are rewarded commensurately and that can be quantified appropriately and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Group is able to

withstand the impact of an adverse outcome. For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to manage the exposure appropriately.

Our Group Risk Framework and risk appetite have allowed us to control our risk exposure successfully throughout the year. Our governance, processes and controls enable us to deal with the uncertainty ahead in order to continue helping our customers achieve their long-term financial goals.

This section explains the main risks inherent in our business and how we manage those risks, with the aim of ensuring we maintain an appropriate risk profile.

## Risk governance, culture and our risk management cycle

Prudential defines 'risk' as the uncertainty that we face in implementing our strategies and objectives successfully, which are outlined on page 10. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Group. Accordingly, material risks will be retained selectively when we think there is value to do so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

The following section provides more detail on our risk governance, risk culture and risk management process.

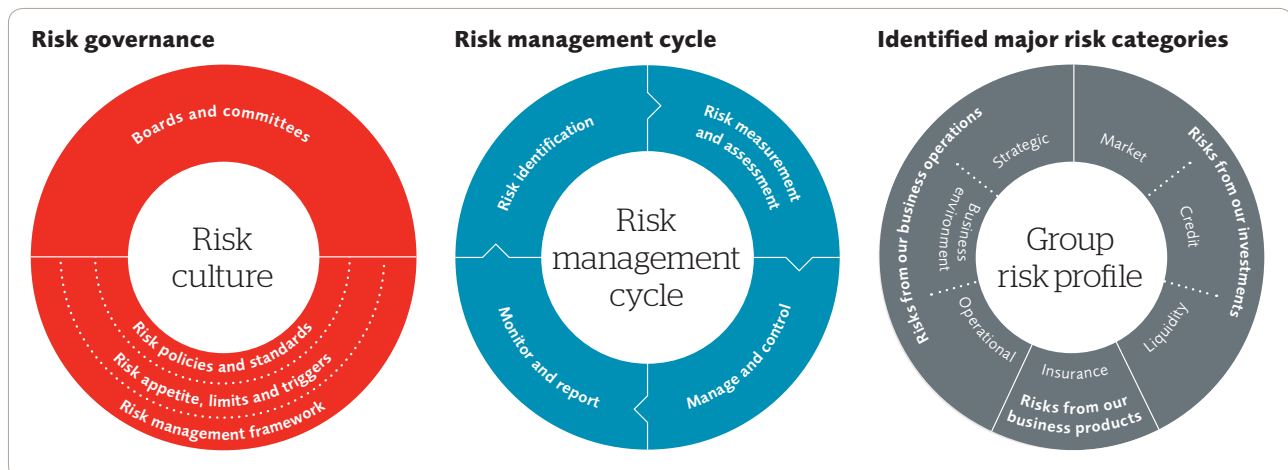
### Risk governance

Our risk governance comprises the Board, organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that the Group Head Office and our business units establish to make decisions and control their activities on risk-related matters. This encompasses individuals, Group-wide functions and committees involved in overseeing and managing risk.

### Risk committees and governance structure

Our risk governance structure is led by the Group Risk Committee, supported by independent non-executives on risk committees of major subsidiaries. These committees monitor the development of the Group Risk Framework, which includes risk appetite, limits, and policies, as well as risk culture.

In addition to our risk committees, there are various executive risk forums to ensure risk issues are shared and considered across the Group. These are led by the Group Executive Risk Committee, an advisory committee to the Group Chief Risk Officer which is supported by a number of sub-committees, including security and information security where specialist skills and knowledge are required.



### Group Risk Framework

The Group Risk Framework has been developed to monitor and manage the risks to our business and is owned by the Board. The aggregate Group exposure to our key risk drivers is monitored and managed by the Group Risk function which is responsible for reviewing, assessing and reporting on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

The Framework requires all our businesses and functions to establish processes for identifying, evaluating, managing and reporting of the key risks faced by the Group – the 'Risk Management Cycle' (see below) is based on the concept of the 'three lines of defence', comprising risk taking and management, risk control and oversight, and independent assurance.

A major part of the Risk Management Cycle is the annual assessment of the Group's most material risks. These risks range from those associated with the economic, market, political and regulatory environment; those that we assume when writing our insurance products and by virtue of the investments we hold; and those that are inherent in our business model and its operations. This is used to inform risk reporting to the risk committees and the Board for the year.

The Group Risk Committee reviews the Group Risk Framework and recommends changes to our Board to ensure that it remains effective in identifying and managing the risks faced by the Group. A number of core risk policies and standards support the Framework to ensure that risks to the Group are identified, assessed, managed and reported.

During 2017 we made a number of enhancements to our policies and processes. These included changes to our processes around new product approvals, management of our critical outsourcing arrangements and increased oversight of model risk across the Group. A new framework was developed to support the monitoring and reporting of risks associated with material transformation programmes, and work continued over the year on the Group's risk culture.

### Risk appetite, limits and triggers

The extent to which we are willing to take risk in the pursuit of our business strategy and objective to create shareholder value is defined by a number of qualitative and

quantitative expressions of risk appetite, operationalised through measures such as limits, triggers, thresholds and indicators. The Group Risk function is responsible for reviewing the scope and operation of these risk appetite measures at least annually to determine that they remain relevant. The Board approves all changes made to the Group's aggregate risk appetite, and has delegated authority to the Group Risk Committee to approve changes to the system of limits, triggers and indicators.

Group risk appetite is set with reference to economic and regulatory capital, liquidity and earnings volatility, as well as for our major risks, and is aimed at ensuring that we take an appropriate level of aggregate risk. It covers risks to shareholders, including those from participating and third-party business.

We have some appetite to take market and credit risk where it arises from profit-generating insurance activities, to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position. We also have some appetite for retaining insurance risks in areas where we believe we have expertise and operational controls, and where we judge it to create more value to retain rather than transfer the risk. The extent of insurance risk that we are willing to hold is conditional on a balanced portfolio of income to shareholders and compatibility with a robust solvency position.

We have no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement or monitor appropriate controls to manage operational risks. Similarly, we have no appetite for liquidity risk, ie for any business to have insufficient resources to cover its outgoing cash flows, or for the Group as a whole to not meet cash flow requirements from its debt obligations under any plausible scenario.

Group limits operate within these expressions of risk appetite to constrain material risks, while triggers and indicators provide further constraint and ensure escalation. The Group Chief Risk Officer determines the action to be taken upon all breaches of Group limits which may include escalation to the Group Risk Committee or Board. Any decision on action taken by the Group Chief Risk Officer is reviewed at the subsequent Group Risk Committee meeting.

### Earnings volatility

The objectives of the aggregate risk limits seek to ensure that:

- The volatility of earnings is consistent with the expectations of stakeholders;
- The Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks; and
- Earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies.

The two measures used to monitor the volatility of earnings are IFRS operating profit and EEV operating profit, although IFRS and EEV total profits are also considered.

### Liquidity

The objective is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios. Risk appetite with respect to liquidity risk is measured using a Liquidity Coverage Ratio which considers the sources of liquidity against liquidity requirements under stress scenarios.

### Capital requirements

The limits aim to ensure that:

- The Group meets its internal economic capital requirements;
- The Group achieves its desired target rating to meet its business objectives; and
- Supervisory intervention is avoided.

The two measures used at the Group level are Solvency II capital requirements and internal economic capital (ECap) requirements. In addition, capital requirements are monitored on local statutory bases.

The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Group Risk function, which uses submissions from our local business units to calculate the Group's aggregated position (allowing for diversification effects between local business units) relative to the aggregate risk limits.

# Report on the risks facing our business and how these are managed continued

## Risk policies

These set out the specific requirements which cover the fundamental principles for risk management within the Group Risk Framework. Policies are designed to give some flexibility so that business users can determine how best to comply with policies based on their local expertise.

There are core risk policies for credit, market, insurance, liquidity and operational risks and a number of internal control policies covering internal model risk, underwriting, dealing controls and tax risk management. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we maintain in line with the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units must confirm on an annual basis that they have implemented the necessary controls to evidence compliance with the Group Governance Manual.

## Risk standards

The Group-wide Operating Standards provide supporting detail to the higher level risk policies. In many cases they define the minimum requirements for compliance with Solvency II regulations which in some areas are highly prescriptive. The standards are more detailed than policies.

## Our risk culture

Culture is a strategic priority of the Board who recognise the importance of good culture in the way that we do business. Risk culture is a subset of broader organisational culture, which shapes the organisation-wide values that we use to prioritise risk management behaviours and practices.

An evaluation of risk culture forms part of the Group Risk Framework and in particular seeks to identify evidence that:

- Senior management in business units articulate the need for good risk management as a way to realise long-term value and continuously support this through their actions;
- Employees understand and care about their role in managing risk – they are aware of and discuss risk openly as part of the way they perform their role; and
- Employees invite open discussion on the approach to the management of risk.

During 2017 a risk culture assessment was performed across the Group. The assessment allowed us to compare the Group's risk culture against best practice behaviours, identify any areas which need improvement and provide high-level industry benchmarking and peer comparison. The Group Risk Committee also has a key role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

Our Code of Conduct and our Group Governance Manual include a series of guiding principles that govern the day-to-day conduct of all our people and any organisations acting on our behalf. This is supported by specific risk policies which require that we act in a responsible manner. This includes, but is not limited to, policies on anti-money laundering, financial crime and anti-bribery and corruption. Our Group outsourcing and third-party supply policy ensures that human rights and modern slavery considerations are embedded within all of our supplier and supply chain arrangements. We also have embedded procedures to allow individuals to speak out safely and anonymously against unethical behaviour and conduct.

The risks associated with our environmental, social and governance (ESG) activities and the policies we maintain in relation to them, are detailed in the Corporate responsibility review on page 64.

## Risk identification

Group-wide risk identification takes place throughout the year and includes processes such as our Own Risk and Solvency Assessment (ORSA) and the horizon-scanning performed as part of our emerging risk management process.

On an annual basis, a top-down identification of the Group's key risks is performed, which considers those risks that have the greatest potential to impact the Group's operating results and financial condition. A bottom-up process of risk identification is performed by the business units who identify, assess and document risks, with appropriate coordination and challenge from the risk functions.

The Group ORSA report pulls together the analysis performed by a number of risk and capital management processes, which are embedded across the Group, and provides quantitative and qualitative assessments of the Group's risk profile, risk management and solvency needs on a forward-looking basis. The scope of the report covers the full known risk universe of the Group.

In accordance with provision C.2.1 of the UK Code, the Directors perform a robust assessment of the principal risks facing the Company through the Group-wide risk identification process, Group ORSA report, and the risk assessments done as part of the business planning review, including how they are managed and mitigated.

Reverse stress testing, which requires us to ascertain the point of business model failure, is another tool that helps us to identify the key risks and scenarios that may have a material impact on the Group.

Our emerging risk management process identifies potentially material risks which have a high degree of uncertainty around timing, magnitude and propensity to evolve. In 2017 we enhanced our Emerging Risk Framework to bring it closer to the Group's risk management activity. This included a redefinition of the relationship between emerging and emerged risks, enabling a consistent framework for evaluating and escalating sufficiently developed emerging risks for risk management activity. The Group holds emerging risk sessions over the year to identify emerging risks which includes input from local subject matter and industry experts. We maintain contacts with thought leaders and peers to benchmark and refine our process.

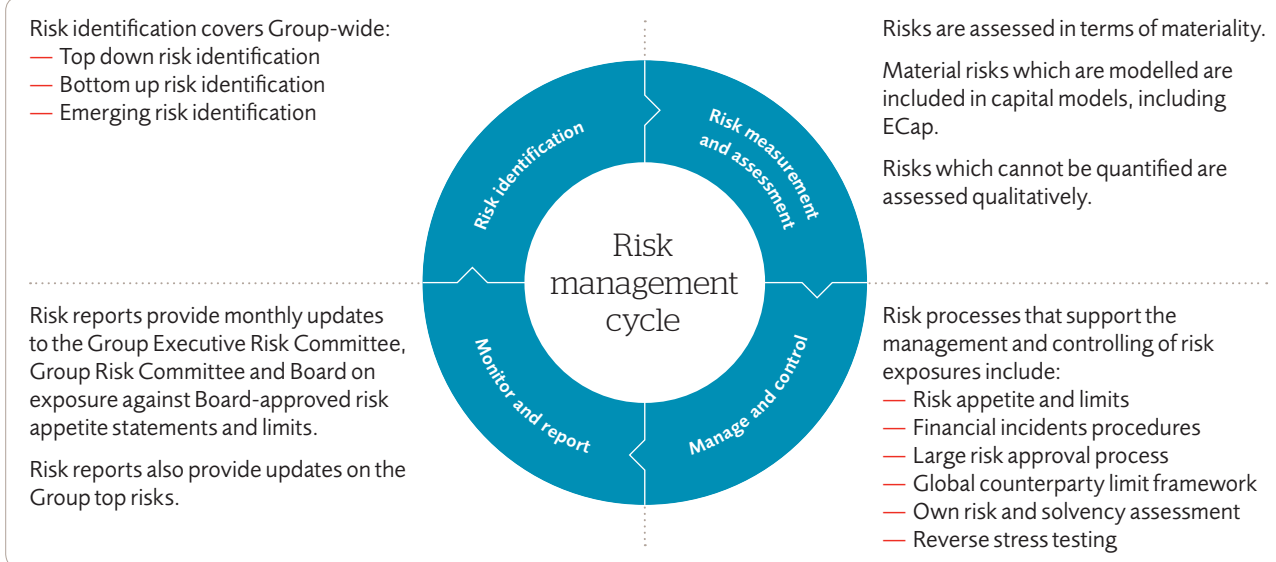
The risk profile is a key output from the risk identification and risk measurement processes, and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing. The risk identification processes support the creation of our annual set of key risks, which are then given enhanced management and reporting focus.

## Risk measurement and assessment

All identified risks are assessed based on an appropriate methodology for that risk. All quantifiable risks which are material and mitigated by holding capital are modelled in the Group's internal model, which is used to determine capital requirements under Solvency II and our own economic capital basis. Governance arrangements are in place to support the internal model, including independent validation and process and controls around model changes and limitations.

## The risk management cycle

The risk management cycle comprises processes to identify, measure and assess, manage and control, and monitor and report on our risks.



### **Risk management and control**

The control procedures and systems established within the Group are designed to manage the risk of failing to meet business objectives reasonably and are detailed in the Group risk policies. This can only provide reasonable and not absolute assurance against material misstatement or loss. They focus on aligning the levels of risk-taking with the achievement of business objectives.

The management and control of risks are set out in the Group risk policies, and form part of the holistic risk management approach under the Group's ORSA.

These risk policies define:

- The Group's risk appetite in respect of material risks, and the framework under which the Group's exposure to those risks is limited;
- The processes to enable Group senior management to effect the measurement and management of the Group material risk profile in a consistent and coherent way; and
- The flows of management information required to support the measurement and management of the Group material risk profile and to meet the needs of external stakeholders.

The methods and risk management tools we employ to mitigate each of our major categories of risks are detailed in the Further risk information section below.

### **Risk monitoring and reporting**

The identification of the Group's key risks informs the management information received by the Group risk committees and the Board. Risk reporting of key exposures against appetite is also included, as well as ongoing developments in other key and emerging risks.

# Report on the risks facing our business and how these are managed continued

## Summary risks

The components of our business model, outlined on page 12, give rise to risks of varying nature across the Group which can broadly be categorised as those which arise as a result of our business operations; those risks arising from our investments; those which arise from the nature of our products; and those broad risks which apply to us because of the global environment in which we operate. These risks, where they materialise, may have a financial impact on the Group, and could also impact on the performance of our products or the services we provide our customers and distributors, which gives rise to potential risks to our brand, reputation and have conduct risk implications. These risks are summarised below. We have indicated whether these risks are considered material at the level of the Group or our business units. Our disclosures covering risk factors can be found at the end of this document.

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## 'Macro' risks

Some of the risks that we are exposed to are necessarily broad given the external influences which may impact on the Group.

These risks include:

### Global economic conditions

Changes in global economic conditions can impact us directly; for example by leading to poor returns on our investments and increasing the cost of promises (guarantees) we have made to our customers. Our fund investment performance may also be impacted, which is a fundamental part of our business in providing appropriate returns for our customers and shareholders. Changes in economic conditions can also have an indirect impact on us; for example economic pressures could lead to decreased savings, reducing the propensity for people to buy our products. Global economic conditions may also impact on regulatory risk for the Group by changing prevailing political attitudes towards regulation. We consider this to be a risk which is material at the level of the Group.

### Geopolitical risk

The geopolitical environment has produced varying levels of volatility in recent years as seen by political developments in the UK, the US and the Eurozone. Uncertainty in these regions, combined with conflict in the Middle East and elevated tensions in east Asia and the Korean peninsula underline that geopolitical risks are truly global and their potential impacts are wide-ranging; for example through increased regulatory and operational risks. The geopolitical and economic environments are increasingly closely linked, and changes in the political arena may have direct or indirect impacts on our Group.

### Digital disruption

The emergence of advanced technologies such as artificial intelligence and block chain is providing an impetus for companies to rethink their existing operating models and how they interact with their customers. We consider digital disruption from both an external and internal view. The external view considers the rise of new technologies and how this may impact on our industry and our competitiveness within it, while the internal view considers the risks associated with our own internal developments in meeting digital change challenges and opportunities. While we are embracing such opportunities, we are also closely monitoring any risks which arise.

### Risks from our investments

#### Credit risk

Is the potential for reduced value of our investments due to the uncertainty around investment returns arising from the potential for defaults of our investment counterparties. Invested credit risk arises from our asset portfolio. We increase sector focus where necessary.

The assets backing the M&G Prudential and Jackson annuity businesses means credit risk is considered a material risk for these business units in particular.

#### Market risk

Is the potential for reduced value of our investments resulting from the volatility of asset prices as driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices. Certain market risks are considered more material for specific business units.

In our Asia business, our main market risks arise from the value of fees from our fee-earning products. In the US, Jackson's fixed and variable annuity books are exposed to a variety of market risks due to the assets backing these policies.

In the UK, exposure arises from the valuation of the proportion of the with-profits fund's future profits which is transferred to the shareholders (future transfers), which is dependent on equity, property and bond values.

M&G Prudential invests in a broad range of asset classes and its income is subject to the price volatility of global financial and currency markets.

#### Liquidity risk

Is the risk of not having sufficient liquid assets to meet our obligations as they fall due, and incorporates the risk arising from funds composed of illiquid assets. It results from a mismatch between the liquidity profile of assets and liabilities. We consider this a risk which is material at the level of the Group.

### Risks from our products

#### Insurance risks

The nature of the products offered by the Group exposes it to insurance risks, which we consider to form a significant part of our overall Group risk profile.

The insurance risks that we are exposed to by virtue of our products include **longevity risk** (policyholders living longer than expected); **mortality risk** (policyholders with life protection dying); **morbidity risk** (policyholders with health protection becoming ill) and **persistency risk** (customers lapsing their policies, and a type of policyholder behaviour risk).

From our health protection products, increases in the costs of claims (including the level of medical expenses) increasing over and above price inflation (claim inflation) is another risk.

The processes that determine the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. Where experience deviates from these assumptions our profitability may be impacted.

Across our business units, some insurance risks are more material than others.

Persistency and morbidity risks are among the most material insurance risks for our Asia business given our focus on health protection products in the region.

For M&G Prudential the most material insurance risk is longevity risk driven by legacy annuity business.

At Jackson, the most material insurance risk is policyholder behaviour risk, including persistency. This impacts the profitability of the variable annuity business and influenced by market performance and the value of policy guarantees.

### Risks from our business operations

#### Operational risks

The complexity of our Group and activities means we face a challenging operating environment. This results from the high volume of transactions we process; product and investment portfolios; our people, processes and IT systems; and the extensive regulations under which we operate.

We also face operational risks through business transformation; introducing new products; new technologies; engaging in third party relationships; and entering into new markets and geographies. Implementing our business strategy requires interconnected change initiatives across the Group. The pace of change further adds to the complexity of our operational risk profile.

Without an effective operational risk framework, such risks could cause significant disruption our systems and operations, resulting in financial loss and/or reputational damage. We consider operational risk to be material at the level of the Group.

**Information security risk** is a significant consideration within operational risk, including both the continuously evolving risk of malicious attack on our systems as well as risks relating to data security and integrity and network disruption. The size of Prudential's IT infrastructure and network, our move toward digitalisation and the increasing number of high profile cyber security incidents across industries means that this risk will continue to be an area of high focus and is one considered to be material to the Group.

#### Regulatory risk

We also operate under the ever-evolving requirements set out by diverse regulatory and legal and tax regimes, as well as utilising a significant number of third parties to distribute products and to support business operations; all of which adds to the complexity of our operations.

The number of regulatory changes underway across Asia, in particular those focusing on consumer protection means that regulatory change in the region is considered a key risk.

Both Jackson and M&G Prudential operate in highly regulated markets. Regulatory reforms can have a material impact on our businesses, and regulatory focus continues to be high.

# Report on the risks facing our business and how these are managed

## continued

### Further risk information

In reading the sections below, it is useful to understand that there are some risks that our policyholders assume by virtue of the nature of their products, and some risks that the Company and its shareholders assume. Examples of the latter include those risks arising from assets held directly by and for the Company or the risk that policyholder funds are exhausted. This report is focused mainly on risks to the shareholder, but will include those which arise indirectly through our policyholder exposures.

### Risks from our investments

#### Market risk

The main drivers of market risk in the Group are:

- Investment risk (including equity and property risk);
- Interest rate risk; and
- Given the geographical diversity of our business, foreign exchange risk.

With respect to investment risk, equity and property risk arises from our holdings of equity and property investments, the prices of which can change depending on market conditions.

The valuation of our assets (particularly the bonds that we invest in) and liabilities are also dependent on market interest rates and exposes us to the risk of those moving in a way that is detrimental for us.

Given our global business, we earn our profits and have assets and liabilities in various currencies. The translation of those into our reporting currency exposes us to movements in foreign exchange rates.

Our main investment risk exposure arises from the portion of the profits from the M&G Prudential with-profits fund to which we are entitled to receive; the value of the future fees from our fee-earning products in our Asia business; and from the asset returns backing Jackson's variable annuities business.

Our interest rate risk is driven in the UK business by our need to match the duration of our assets and liabilities; from the guarantees of some non unit-linked investment products in Asia; and the cost of guarantees in Jackson's fixed, fixed index and variable annuity business.

The methods that we use to manage and mitigate our market risks include the following:

- Our market risk policy;
- Risk appetite statements, limits and triggers that we have in place;
- The monitoring and oversight of market risks through the regular reporting of management information;
- Our asset and liability management programmes;
- Use of derivative programmes, including, for example, interest rate swaps, options and hybrid options for interest rate risk;
- Regular deep dive assessments; and
- Use of currency hedging.

#### Investment risk

##### (Audited)

In the UK business, our main investment risk arises from the assets held in the with-profits funds. Although this is mainly held by our policyholders, a proportion of the funds' declared bonuses and policyholder net investment gains is shared with shareholders and so our investment exposure relates to the future performance of that proportion (future transfers).

This investment risk is driven mainly by equities in the funds, although there is some risk associated with other investments such as property and bonds. Some hedging to protect against a reduction in the value of these future transfers against falls in equity prices is performed outside the funds using derivatives. The with-profits funds' large Solvency II own funds – estimated at £9.6 billion as at 31 December 2017 (31 December 2016: £8.4 billion) – helps to protect against market fluctuations and helps the funds to maintain appropriate solvency levels. The with-profits funds' Solvency II own funds are protected partially against falls in equity markets through an active hedging programme within the fund.

In Asia, our shareholder exposure to equity price movements results from unit-linked products, where our fee income is linked to the market value of the funds under management. Further exposure arises from with-profits businesses where bonuses declared are based broadly on historical and current rates of return from our investment portfolios which include equities.

In Jackson, investment risk arises from the assets backing customer policies. In the case of spread-based business, including fixed annuities, these assets are generally bonds, and shareholder exposure comes from the minimum returns needed to meet the guaranteed rates that we offer to policyholders. For our variable annuity business, these assets include both equities and bonds. In this case, the main risk to the shareholder comes from the guaranteed benefits that can be included as part of these products. Our exposure to this is reduced by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third-party reinsurers.

#### Interest rate risk

##### (Audited)

While long-term interest rates in advanced economies have increased broadly since mid-2016 and indications are for further gradual tightening of monetary policy and the start of balance sheet normalisation by central banks, they remain close to historical lows. Some products that we offer are sensitive to movements in interest rates. We have already taken a number of actions to reduce the risk to the in-force business, as well as re-pricing and restructuring new business offerings in response to these historically low interest rates. Nevertheless, we still retain some sensitivity to interest rate movements.

Interest rate risk arises in M&G Prudential's insurance business from the need to match cash payments to meet annuity obligations with the cash we receive from our investments. To minimise the impact on our profit, we aim to match the duration (a measure of interest rate sensitivity) of assets and liabilities as closely as possible and the position is monitored regularly. Under the Solvency II regulatory regime, additional interest rate risk results from the way the balance sheet is constructed, such as the requirement for us to include a risk



margin. The UK business assesses on a continual basis the need for any derivatives in managing its interest rate sensitivity. The with-profits business is exposed to interest rate risk because of underlying guarantees in some of its products. Such risk is borne largely by the with-profits fund itself but shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

In Asia, our exposure to interest rate risk arises from the guarantees of some non unit-linked investment products. This exposure exists because it may not be possible to hold assets which will provide cash payments to us which match exactly those payments we in turn need to make to policyholders – this is known as an asset and liability mismatch and although it is small and managed appropriately, it cannot be eliminated.

Jackson is exposed to interest rate risk in its fixed, fixed index and variable annuity books. Movements in interest rates can impact on the cost of guarantees in these products; in particular the cost of guarantees to us may increase when interest rates fall. We monitor the level of sales of variable annuity products with guaranteed living benefits actively, and together with the risk limits we have in place this helps us to ensure that we are comfortable with the interest rate and market risks we incur as a result. The Jackson hedging programme includes hybrid derivatives to provide some protection from a combined fall in interest rates and equity markets since Jackson is exposed to the combination of these market movements.

#### **Foreign exchange risk (Audited)**

The geographical diversity of our businesses means that we have some exposure to the risk of exchange rate fluctuations. Our operations in the US and Asia, which represent a large proportion of our operating profit and shareholders' funds, generally write policies and invest in assets in local currencies. Although this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in our Group financial statements when results are reported in UK sterling.

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements. We accept the foreign exchange risk this can produce when reporting our Group balance sheet and income statement. In cases where a surplus arises in an overseas operation which is to be used to support Group capital, or where a significant cash payment is due from an overseas subsidiary to the Group, this foreign exchange exposure is hedged where we believe it is favourable economically to do so. Generally, we do not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside of the countries in which we operate, but we do have some appetite for this on fee income and on non-sterling investments within the with-profits fund. Where foreign exchange risk arises outside our appetite, currency borrowings, swaps and other derivatives are used to manage our exposure.

#### **Credit risk**

We invest in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments we need to make to policyholders. We also enter into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, we are exposed to credit risk and counterparty risk across our business.

Credit risk is the potential for reduction in the value of our investments which results from the perceived level of risk of an investment issuer being unable to meet its obligations (defaulting). Counterparty risk is a type of credit risk and relates to the risk that the counterparty to any contract we enter into being unable to meet their obligations causing us to suffer loss.

We use a number of risk management tools to manage and mitigate this credit risk, including the following:

- Our credit risk policy;
- Risk appetite statements and limits that we have defined on issuers, and counterparties;

- Collateral arrangements we have in place for derivative, secured lending reverse repo and reinsurance transactions;
- The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews. In 2017 it has conducted sector reviews in the Asia sovereign sector, the UK banking sector, the US retail property sector, and continues to review the developments around central clearing;
- Regular deep dive assessments; and
- Close monitoring or restrictions on investments that may be of concern.

#### **Debt and loan portfolio (Audited)**

Our UK business is exposed mainly to credit risk on fixed income assets in the shareholder-backed portfolio. At 31 December 2017, this portfolio contained fixed income assets worth £35.3 billion. Credit risk arising from a further £57.4 billion of fixed income assets is borne largely by the with-profits fund, to which the shareholder is not exposed directly although under extreme circumstances shareholder support may be required if the fund is unable to meet payments as they fall due.

Credit risk also arises from the debt portfolio in our Asia business, the value of which was £41.0 billion at 31 December 2017. The majority (68 per cent) of the portfolio is in unit-linked and with-profits funds and so exposure of the shareholder to this component is minimal. The remaining 32 per cent of the debt portfolio is held to back the shareholder business.

Credit risk also arises in the general account of the Jackson business, where £35.4 billion of fixed income assets are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products.

The shareholder-owned debt and loan portfolio of the Group's other operations was £2.3 billion as at 31 December 2017.

Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

# Report on the risks facing our business and how these are managed continued

## Group sovereign debt (Audited)

We also invest in bonds issued by national governments. This sovereign debt represented 19 per cent or £16.5 billion of the shareholder debt portfolio as at 31 December 2017 (31 December 2016: 19 per cent or £17.1 billion). 5 per cent of this was rated AAA and 90 per cent was considered investment grade (31 December 2016: 92 per cent investment grade).

The particular risks associated with holding sovereign debt are detailed further in our disclosures on risk factors.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 31 December 2017 are given in note C3.2(f) of the Group's IFRS financial statements.

## Bank debt exposure and counterparty credit risk (Audited)

Our exposure to banks is a key part of our core investment business, as well as being important for the hedging and other activities we undertake to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the sector is considered a material risk for the Group with an appropriate level of management information provided to the Group's risk committees and the Board.

The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 31 December 2017 are given in note C3.2(f) of the Group's IFRS financial statements.

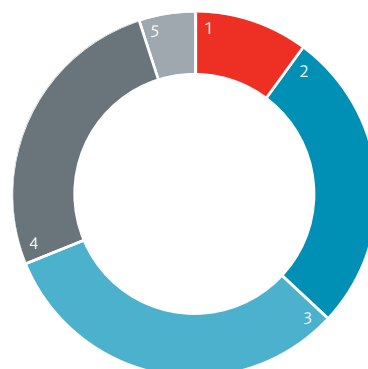
Our exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits.

Where appropriate, we reduce our exposure, buy credit protection or use additional collateral arrangements to manage our levels of counterparty credit risk.

At 31 December 2017, shareholder exposures by rating<sup>1</sup> and sector are shown below:

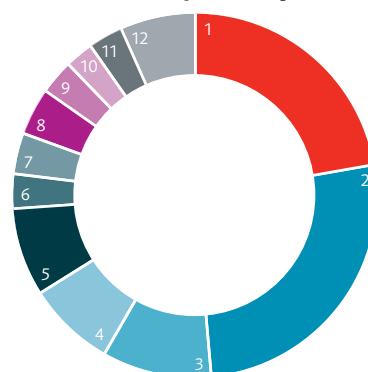
- 95 per cent of the shareholder portfolio is investment grade rated. In particular, 69 per cent of the portfolio is rated A and above; and
- The Group's shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and sovereign sectors).

### Shareholder exposure by rating



1 AAA	10%
2 AA	27%
3 A	32%
4 BBB	26%
5 BB or below or non-rated assets	5%

### Shareholder exposure by sector



1 Financial	22.43%
2 Government	26.23%
3 Real estate	9.80%
4 Utilities	7.66%
5 Consumer, non-cyclical	7.87%
6 Mortgage securities	3.02%
7 Industrial	3.78%
8 Energy	4.01%
9 Communications	3.10%
10 Consumer, cyclical	2.46%
11 Asset-backed securities	3.25%
12 Other	6.39%

### Liquidity risk

Our liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. This incorporates the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may impact on market conditions and valuation of assets in a more uncertain way than for other risks like interest rate or credit risk. It may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption requests are made against Prudential external funds.

We have significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. In total, the Group has £2.6 billion of undrawn committed facilities that we can make use of, expiring in 2022. We have access to further liquidity by way of the debt capital markets, and also have in place an extensive commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade.

Liquidity uses and sources are assessed at a Group and business unit level under both base case and stressed assumptions. We calculate a Liquidity Coverage Ratio (LCR) under stress scenarios as one measure of our liquidity risk, and this ratio and the liquidity resources available to us are monitored regularly and are assessed to be sufficient.

Our risk management and mitigation of liquidity risk include:

- Our liquidity risk policy;
- The risk appetite statements, limits and triggers that we have in place;
- The monitoring of liquidity risk we perform through regular management information to committees and the Board;
- Our Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of our liquidity risks and the adequacy of our available liquidity resources under normal and stressed conditions;

- Regular stress testing;
- Our established contingency plans and identified sources of liquidity;
- Our ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The access we have to external sources of finance through committed credit facilities.

### Risks from our products

#### Insurance risk

Insurance risk makes up a significant proportion of our overall risk exposure. The profitability of our businesses depends on a mix of factors including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill) and policyholder behaviour (variability in how customers interact with their policies, including utilisation of withdrawals, take-up of options and guarantees and persistency, ie lapsing of policies), and increases in the costs of claims, including the level of medical expenses increases over and above price inflation (claim inflation).

The principal drivers of the Group's insurance risks are persistency and morbidity risk in the Asia business; longevity risk in the UK legacy business of M&G Prudential; and policyholder behaviour risks in Jackson.

We manage and mitigate our insurance risk using the following:

- Our insurance and underwriting risk policies;
- The risk appetite statements, limits and triggers we have in place;
- Using longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Using reinsurance to mitigate longevity and morbidity risks;
- Ensuring appropriate medical underwriting when policies are issued and appropriate claims management practices when claims are received in order to mitigate morbidity risk;
- Maintaining the quality of our sales processes and using initiatives to increase customer retention in order to mitigate persistency risk;

- Using product re-pricing and other claims management initiatives in order to mitigate medical expense inflation risk; and
- Regular deep dive assessments.

Longevity risk is an important element of our insurance risks for which we need to hold a large amount of capital under Solvency II regulations. Longevity reinsurance is a key tool for us in managing our risk. The enhanced pensions freedoms introduced in the UK during 2015 reduced the demand for retail annuities greatly and further liberalisation is anticipated. Although we have withdrawn from selling new annuity business, given our significant annuity portfolio the assumptions we make about future rates of improvement in mortality rates remain key to the measurement of our insurance liabilities and to our assessment of any reinsurance transactions.

We continue to conduct research into longevity risk using both experience from our annuity portfolio and industry data. Although the general consensus in recent years is that people are living longer, there is considerable volatility in year-on-year longevity experience, which is why we need expert judgement in setting our longevity basis.

Our morbidity risk is mitigated by appropriate underwriting when policies are issued and claims are received. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business.

In Asia, we write significant volumes of health protection business, and so a key assumption for us is the rate of medical inflation, which is often in excess of general price inflation. There is a risk that the expenses of medical treatment increase more than we expect, so the medical claim cost passed on to us is higher than anticipated. Medical expense inflation risk is best mitigated by retaining the right to re-price our products each year and by having suitable overall claim limits within our policies, either limits per type of claim or in total across a policy.

# Report on the risks facing our business and how these are managed continued

Our persistency assumptions reflect similarly a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. Persistency risk is mitigated by appropriate training and sales processes and managed locally post-sale through regular experience monitoring and the identification of common characteristics of business with high lapse rates. Where appropriate, we make allowance for the relationship (either assumed or observed historically) between persistency and investment returns and account for the resulting additional risk. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products. The effect of persistency on our financial results can vary but depends mostly on the value of the product features and market conditions.

## **Risks from our business operations** **Non-financial risks**

In the course of doing business, the Group is exposed to non-financial risks arising from our operations, the business environment and our strategy. Our main risks across these areas are detailed below.

We define operational risk as the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel or systems, or from external events. This includes employee error, model error, system failures, fraud or some other event which disrupts business processes. Processes are established for activities across the scope of our business, including operational activity, regulatory compliance, and those supporting environmental, social and governance (ESG) activities among others, any of which can expose us to operational risks.

We process a large volume of complex transactions across a number of diverse products, and are subject to a high number of varying legal, regulatory and tax regimes. We also have a number of important third-party relationships that provide the distribution and processing of our products, both as market counterparties and as outsourcing partners. M&G Prudential outsources several operations, including a significant part of its back office, customer-facing functions and a number of IT functions. These third-party arrangements help us to provide a high level and cost-effective service to our customers, but they also make us reliant on the operational performance of our outsourcing partners.

The performance of our core business activities places reliance on the IT infrastructure that supports day-to-day transaction processing. Our IT environment must also be secure and we address an increasing cyber risk threat as our digital footprint increases – see separate Cyber risk section below. The risk that our IT infrastructure does not meet these requirements is a key area of focus for us, particularly the risk that legacy infrastructure supporting core activities/processes affects business continuity or impacts on business growth.

Operational challenges also exist in keeping pace with regulatory changes. This requires implementing processes to ensure we are, and remain, compliant on an ongoing basis, including regular monitoring and reporting. The high rate of global regulatory change, in an already complex regulatory landscape, increases the risk of non-compliance due to a failure to identify, interpret correctly, implement and/or monitor regulatory compliance. See Global regulatory and political risk section below. Legislative developments over recent years, together with enhanced regulatory oversight and increased capability to issue sanctions, have resulted in a complex regulatory environment that may lead to breaches of varying magnitude if the Group's business-as-usual operations are not compliant. As well as prudential regulation, we focus on conduct regulation, including those related to sales practice and anti-money laundering, bribery and corruption. We have a particular focus on regulations related to the latter in newer/emerging markets.

The business environment we operate in has become increasingly complex over the years. The political, environmental, societal, legal and economic landscape is highly dynamic and uncertain. Changes and developments on the horizon may result in emerging risks to us which are monitored under our Emerging Risk Framework.

The Group maintains active engagement with our shareholders, governments, policymakers and regulators in our key markets, as well as with international institutions. This introduces expectations for the Group to act and respond to environmental, social and governance (ESG) matters in a certain manner. The perception that our key stakeholders have of us and our businesses is crucial in forming and maintaining a robust brand and reputation. As such, the Group's operational risk framework explicitly incorporates ESG as a component of our social and environmental responsibility, brand management and external communications within our framework. This is further strengthened by factoring considerations for reputational impacts when the materiality of operational risks are assessed.

The climate risk landscape continues to evolve and is moving up the agenda of many regulators, governments, non-governmental organisations and investors. Examples of this include the US Department of Labor's decision to change its guidance to pension fund fiduciaries to allow them to factor ESG issues into investment decisions; Hong Kong Stock Exchange listing rules requiring listed companies to provide a high-level discussion of ESG approaches and activities in external disclosures, and the Financial Stability Board's (FSB) Task Force for Climate-related Financial Disclosures.

The increased regulatory focus on environmental issues not only reflects existing commitments, for example in the UK under the 2008 Climate Change Act, but also a heightened societal awareness of climate change as a pressing global concern. Regulatory and stakeholder interest in environmental matters is expected to increase as climate change moves higher up governmental agendas. This increase in focus creates a number of potential near term risks.

These include:

- Investment risk in the form of 'transition risk'. This is the risk that an abrupt, unexpected tightening of carbon emission policies lead to a disorderly re-pricing of carbon-intensive assets;
- Liability risk, if the Group is unable to demonstrate sufficiently that we have acted to mitigate our exposure to climate change risk; and
- Reputational risks, where the Group's actions could affect external perceptions of our brand and corporate citizenship.

The Group has established a Group-wide Responsible Investment Advisory Committee with designated responsibility to oversee Prudential's responsible investment activities as both asset owners and asset managers.

Physical impacts of climate change could also arise, driven by specific climate-related events such as natural disasters. These impacts are mitigated through our crisis management and disaster recovery plans.

Further information on the climate risks facing our business and how we are managing and responding to these can be found in the Corporate responsibility review on page 77.

Strategic risk requires a forward-looking approach to risk management. A key part of our approach are the risk assessments performed as part of the Group's annual strategic planning process, which supports the identification of potential future threats and the initiatives needed to address them, as well as competitive opportunities. We also assess the impact on the Group's businesses and our risk profile to ensure that strategic initiatives are within the Group's overall risk appetite.

Implementation of the Group's strategy and the need to comply with emerging regulation has resulted in a significant portfolio of transformation and change initiatives, which may further increase in the future. In particular the intention to demerge the UK and Europe business from the rest of the Group will result in a substantial change programme which will need to be managed at the same time that other material transformation programmes are being delivered. The scale and the complexity of the transformation programmes could impact business operations and customers, and has the potential for reputational damage if these programmes fail to deliver their objectives. Implementing further strategic initiatives may amplify these risks.

Other significant change initiatives are occurring across the Group. The volume, scale and complexity of these programmes increases the likelihood and potential impact of risks associated with:

- Dependencies between multiple projects;
- The organisational ability to absorb change being exceeded;
- Unrealised business objectives/benefits; and
- Failures in project design and execution.

The risks detailed above form key elements of the Group's operational risk profile. In order to effectively identify, assess, manage, control and report on all operational risks across the business, a Group-wide operational risk framework is in place. The key components of the framework are:

- Application of a risk and control assessment (RCA) process, where operational risk exposures are identified and assessed as part of a periodical cycle. The RCA process takes into account a range of internal and external factors, including an assessment of the control environment, to determine the business's most significant risk exposures on a prospective basis;

- An internal incident capture process, which identifies, quantifies and monitors remediation conducted through application of action plans for risk events that have occurred across the business;
- A scenario analysis process for the quantification of extreme, yet plausible manifestations of key operational risks across the business on a forward looking basis. This is carried out at least annually and supports external and internal capital requirements as well as informing risk activity across the business; and
- An operational risk appetite framework that articulates the level of operational risk exposure the business is willing to tolerate and sets out escalation processes for breaches of appetite.

Outputs from these processes and activities performed by individual business units are monitored by the Group Risk function, who provide an aggregated view of risk profile across the business to the Group Risk Committee and Board.

These core framework components are embedded across the Group via the Group Operational Risk Policy and Standards documents, which sets out the key principles and minimum standards for the management of operational risk across the Group.

The Group operational risk policy, standards and operational risk appetite framework sit alongside other risk policies and standards that individually engage with key operational risks, including outsourcing and third-party supply, business continuity, technology and data, and operations processes.

# Report on the risks facing our business and how these are managed continued

These policies and standards include subject matter expert-led processes that are designed to identify, assess, manage and control operational risks, including the application of:

- A transformation risk framework that assesses, manages and reports on the end-to-end transformation lifecycle, project prioritisation and the risks, interdependencies and possible conflicts arising from a large portfolio of transformation activities;
- Internal and external review of cyber security capability;
- Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process;
- Group and business unit-level compliance oversight and testing in respect of adherence with in-force regulations;
- Regulatory change teams in place assist the business in proactively adapting and complying with regulatory developments;
- A framework in place for emerging risk identification and analysis in order to capture, monitor and allow us to prepare for operational risks that may crystallise beyond the short-term horizon;
- Corporate insurance programmes to limit the financial impact of operational risks; and
- Reviews of key operational risks and challenges within Group and business unit business plans.

These activities are fundamental in maintaining an effective system of internal control, and as such outputs from these also inform core RCA, incident capture and scenario analysis processes and reporting on operational risk. Furthermore, they also ensure that operational risk considerations are embedded in key business decision-making, including material business approvals and in setting and challenging the Group's strategy.

### **Global regulatory and political risk**

Our risk management and mitigation of regulatory and political risk includes the following:

- Risk Assessment of the Business Plan which includes consideration of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- The consideration of risk themes in strategic decisions; and
- Ongoing engagement with national regulators, government policy teams and international standard setters.

Recent shifts in the focus of some governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade, capital controls or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies. We continue to monitor these developments at a national and global level and these considerations form part of our ongoing engagement with government policy teams and regulators.

On 29 March 2017 the UK submitted formal notification of its intention to withdraw from the EU. In December 2017, agreement was reached between the UK and EU to progress negotiations onto transitional arrangements and the future trading relationship. The outcome of negotiations remains highly uncertain. If no formal withdrawal agreement is reached then it is expected the UK's membership of the EU will terminate automatically two years after the submission of the notification.

The ongoing uncertainty during the remainder of the negotiation period and the potential for a disorderly exit from the EU by the UK without a negotiated agreement may increase volatility in the markets where we operate, creating the potential for a general downturn in economic activity and for falls in interest rates in some jurisdictions due to easing of monetary policy and investor sentiment.

As a Group, our diversification by geography, currency, product and distribution should reduce some of the potential impact. We have UK-domiciled operations including M&G Prudential, and due to the geographical location of both its businesses and its customers, its insurance and the fund management operations have most potential to be affected by the UK's exit. The extent of the impact will depend in part on the nature of the arrangements that are put in place between the UK and the EU. Contingency plans were developed ahead of the referendum by business units and operations that may be impacted immediately by a vote to withdraw the UK from the EU, and these plans have been enacted since the referendum result. We have since also undertaken significant work to ensure that our business, and in particular our customer base, is not unduly affected by the decision of the UK to exit from the EU.

The UK's decision to leave the EU has introduced uncertainty to the extent of future applicability of the Solvency II regime in the UK. In October 2017, the Treasury Committee published its report on the Solvency II Directive and the UK Insurance Industry, which highlighted the need for a strategy, post-UK exit, to foster innovation, competition and competitiveness for the benefit of UK consumers. In late 2016 the European Commission began a review of some aspects of the Solvency II legislation, with a particular focus on the Solvency Capital Requirement calculated using the standard formula, which is expected to run until 2021.

National and regional efforts to curb systemic risk and promote financial stability are also underway in certain jurisdictions in which Prudential operates, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the Insurance Capital Standard being developed by the International Association of Insurance Supervisors (IAIS). There are also a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised. These include addressing Financial Conduct Authority (FCA) reviews, ongoing engagement with the Prudential Regulation Authority (PRA), and the work of the Financial Stability Board (FSB) and standard-setting institutions such as the IAIS. Decisions taken by regulators, including those related to solvency requirements, corporate or governance structures, capital allocation and risk management may have an impact on our business.

The IAIS's G-SII regime forms additional compliance considerations for us. Groups designated as G-SIIs are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. The FSB did not publish a new list of G-SIIs in 2017, however the policy measures set out in the FSB's 2016 communication on G-SIIs continue to apply to the Group. Prudential is monitoring the development and potential impact of the policy measures

and is continuing to engage with the PRA on the implications of such measures and Prudential's designation as a G-SII. The IAIS has launched a public interim consultation on an activities-based approach to systemic risk. Following the feedback from this, a second consultation with proposals for policy measures is due to be launched in 2018. Any changes to the designation methodology are expected to be implemented in 2019.

We continue to engage with the IAIS on developments in capital requirements for groups with G-SII designation. The regime introduces capital requirements in the form of a Higher Loss Absorption (HLA) requirement. This requirement was initially intended to come into force in 2019 but has been postponed until 2022. The HLA is also now intended to be based on the Insurance Capital Standard, which is being developed by the IAIS as the capital requirements under its Common Framework (ComFrame). This framework is focused on the supervision of Internationally Active Insurance Groups (IAIGs) and will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard (ICS) that is intended to apply to Internationally Active Insurance Groups.

The IAIS has announced that the implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. During the monitoring phase, IAIGs will be required to report on ICS to the group-wide supervisor on a confidential basis, although these results will not be used as a basis to trigger supervisory action.

The IAIS's Insurance Core Principles, which provide a globally-accepted framework for the supervision of the insurance sector and ComFrame evolution, are expected to create continued development in both prudential and conduct regulations over the next two to three years.

In the US, some parts of the Department of Labor (DoL) rule introducing fiduciary obligations for distributors of investment products, which may reshape dramatically the distribution of retirement products, became effective on 9 June 2017. This included those provisions on impartial conduct standards, although other provisions of the rule have now been delayed until 1 July 2019. Jackson has introduced fee-based variable annuity products in response to the introduction of the rule, and we anticipate that the business's strong relationships with distributors, history of product innovation and efficient operations should further mitigate any impacts.

The US National Association of Insurance Commissioners (NAIC) is continuing its industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and risk management. Following two industry quantitative impact studies, proposed changes to the current framework have been released by the NAIC for comment from industry and other interested parties. Jackson continues to be engaged in the consultation and testing process. The proposed changes are expected to be effective from 2019 at the earliest. In December 2017, the Tax Cuts and Jobs Act was signed into law in the US. Some uncertainty exists on the implications of the tax reforms on the NAIC's proposals.

A degree of uncertainty as to the timing, status and final scope of these key US reforms exists. Our preparations to manage the impact of these reforms will continue while we await further clarification.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 which will introduce fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. The Group is reviewing the complex requirements of the standard and is considering its potential impact. This is expected to, among other things, include altering the timing of IFRS profit recognition, and the implementation of the standard is likely to require changes to the Group's IT, actuarial and finance systems.

# Report on the risks facing our business and how these are managed continued

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New local capital rules and requirements could be introduced in these and other regulatory regimes that challenge legal or ownership structures, current sales practices, or could be applied to sales made prior to their introduction retrospectively, which could have a negative impact on Prudential's business or reported results.

## **Cyber risk**

Cyber risk remains an area of heightened focus after a number of recent high profile attacks and data losses. The growing maturity and industrialisation of cyber-criminal capability, together with an increasing level of understanding of complex financial transactions by criminal groups, are two reasons why risks to the financial services industry are increasing. Disruption to the availability, confidentiality and integrity of our IT systems could make it difficult to recover critical services, result in damage to assets and compromise the integrity and security of data. This could result in significant impacts to business continuity, our customer relationship and our brand reputation. Developments in data protection worldwide (such as the EU General Data Protection Regulation that comes into force in May 2018) may increase the financial and reputational implications for Prudential of a breach of its (or third-party suppliers') IT systems.

Given this, cyber security is seen as a key risk for the Group and is an area of increased scrutiny by global regulators. The threat landscape is continuously evolving, and our assessment is that the systemic risk from untargeted but sophisticated and automated attacks has increased. Cyber risks are also increasingly stemming from geopolitical tensions.

The core objectives of our Cyber Risk Management Strategy are: to develop a comprehensive situational awareness of our business in cyberspace; to proactively engage cyber attackers to minimise harm to our business; and to enable the business to grow confidently and safely in cyberspace.

Our Cyber Defence Plan consists of a number of work-streams, including developing our ability to deal with incidents; alignment with our digital transformation strategy; and increasing cyber oversight and assurance to the Board. We have made progress in all of these across 2017. Protecting our customers remains core to our business, and the successful delivery of the Cyber Defence Plan will reinforce our capabilities to continue doing so in cyberspace as we transition to a digital business.

The Board receives periodic updates on cyber risk management throughout the year, which includes assessments against the core objectives under our Group-wide Cyber Risk Management Strategy and progress updates on the associated Group-wide Coordinated Cyber Defence Plan.

Group functions work with each of the business units to address cyber risks locally within the national and regional context of each business, following the strategic direction laid out in the Cyber Risk Management Strategy and managed through the execution of the Cyber Defence Plan.

The Group Information Security Committee, which consists of senior executives from each of the businesses and meets on a regular basis, governs the execution of the Cyber Defence Plan and reports on delivery and cyber risks to the Group Executive Risk Committee. Both committees also receive regular operational management information on the performance of controls.

## **Viability statement prepared in accordance with the provision C.2.2 of the UK code**

### **The Group's longer-term prospects**

The Group's strategy is based around meeting the long-term savings and protection needs of its customers and hence creating value for both customers and shareholders over a time frame that can be many years. As described on pages 12 to 13, the Group's business model supports this strategy by constantly evolving our products to meet changing customers' needs, building out and diversifying distribution capabilities and relationships to reach new customers and investing in technology to better empower and serve the salesforce and customers. Examples of the actions undertaken during 2017 are set out on pages 18 to 32. This focus, together with our risk management framework, supports the sustainability of our business over the longer term.

The Directors regularly consider strategic matters that may affect the longer-term prospects of the Group. In performing this viability assessment, the Directors considered the potential impact on the viability of the Company and the Group of the announced intention to demerge the Group's UK operations. Further, the Group as a whole and each of its life assurance operations are subject to extensive regulation and supervision, which are designed primarily to reinforce the Company's management of its long-term solvency, liquidity and viability to ensure that it can continue to meet obligations to policyholders. Further details on the current capital strength of the Group are provided on pages 48 to 63.

### **Period of viability assessment**

The Directors have assessed the viability of the Company and the Group for a period longer than the 12 months required by the going concern statement.



The Directors performed the assessment by reference to the three-year period to December 2020. Three years is considered an appropriate period as it represents the period covered by the detailed business plan that is prepared annually on a rolling three-year basis. In approving the business plan the Directors review the Group's projected performance with regards to profitability, cash generation and capital position, together with the parent company's liquidity over this three-year period. This projection involves setting a number of economic and other assumptions that are inherently volatile over a much longer reporting period. Such assumptions include foreign exchange rates, interest rates, economic growth rates and the impact on the business environment for events such as the exit of the United Kingdom from the European Union or changes in regulation.

#### Assessment of risks over the period

The Group's business plan implements the Group's strategic objectives through the business model and activities discussed on pages 10 to 13. As noted above, underpinning the projections in the business plan are a number of economic and other assumptions. Assessment of the risks to achieving the projected performance therefore remains an integral part of the planning process. The Group's approach to risk management and a summary of the key risks facing the Group are set out on pages 48 to 63.

For the purposes of assessing the Group's viability, the Directors considered those risks where the impact of possible adverse external developments could be of such speed and severity to present a shock to the Group's financial position. The risks further considered, from those detailed on page 53, are: market risk, credit risk, liquidity risk and regulatory risk.

To evaluate the Group's resilience to significant deteriorations in market and credit conditions and other shock events, these risks are grouped together into severe but plausible scenarios which are then applied to the assumptions underlying the business plan. For example, the impacts of scenarios assuming a disorderly transition to a more normalised interest rate environment and an international recession were considered in the preparation of the most recent business plan, together with the impact on Group liquidity of a scenario assuming the closure of short-term debt markets for three months. In addition, the Group conducts an annual reverse stress test which gives the Directors an understanding of the maximum resilience of the Group to extremely severe adverse scenarios.

The scenarios tested showed that the Group would be able to maintain viability, over the three-year period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios.

The impact on the business of known areas of regulatory change whose financial implications can be reasonably quantified is also considered as part of the plan. As well as known areas of regulatory change the Group is exposed to the risk of sudden and unexpected changes in regulatory requirements at the Group and local level. While unexpected changes cannot be fully anticipated and hence modelled, the risk of regulatory change is mitigated by capital held by the Group and its subsidiaries in excess of Group and local regulatory requirements, the Group's ability to generate significant capital annually through its operational delivery and the availability of compensating actions designed to restore key capital and solvency metrics.

The Directors also considered the risks that would arise from the proposed intention to demerge M&G Prudential that could impact their assessment of the Group's viability over the three years ended December 2020. The assessment did not change the Board's conclusion.

#### Conclusion on viability

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet their liabilities as they fall due over the three-year plan period to December 2020.

#### Note

1 Based on hierarchy of Standard & Poor's, Moody's and Fitch, where available and if unavailable, internal ratings have been used.

# Building stronger communities

We build stronger communities by delivering products that enable our customers to move ahead in their lives with confidence, and by investing in the real economy to drive the cycle of growth.

## 2017 performance highlights

- £25 million total community investment
- £500,000 raised through Prudential RideLondon from charity partners and employees
- 96,493 hours volunteered by employees across the Prudential Group
- £412,375 donated by employees through payroll giving across the Group

Alongside the benefits we provide through our core business activities, we also play a wider role in fostering sustainable development through our corporate responsibility programmes around the world.

This corporate responsibility review provides an overview of our community investment, environmental, diversity and inclusion, talent development and performance management activities and progress in 2017, which have helped to improve the lives of customers and strengthened communities throughout the markets in which we operate. More detailed information is available online at [www.prudential.co.uk/corporate-responsibility](http://www.prudential.co.uk/corporate-responsibility) and in our 2017 Environmental, social and governance report.

### Environmental, social and governance (ESG) – a changing landscape

The ESG landscape is evolving rapidly. We recognise these changes and position ourselves to adapt to them proactively, to ensure that we remain a sustainable business and demonstrate that sustainability as transparently as possible. We will report in detail on our material, non-financial ESG issues in our 2017 ESG Report.

We have chosen to include a summary of our material ESG issues and how we manage these for the first time here in our Annual Report and commit to continuing to develop these disclosures for our investors in future Annual Reports. This reflects our belief in the importance of ESG considerations to our long-term success.

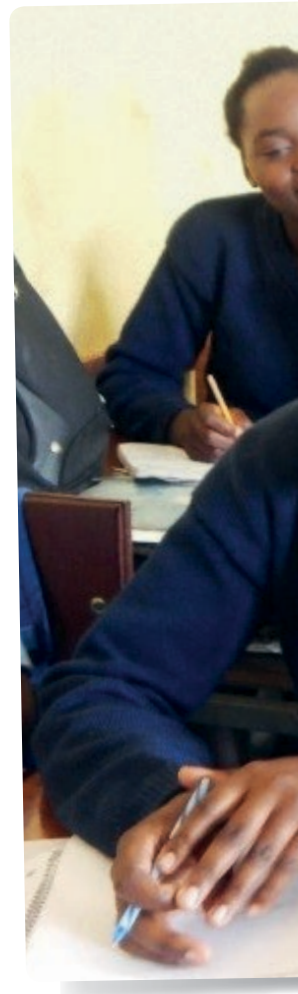
### Our approach to ESG

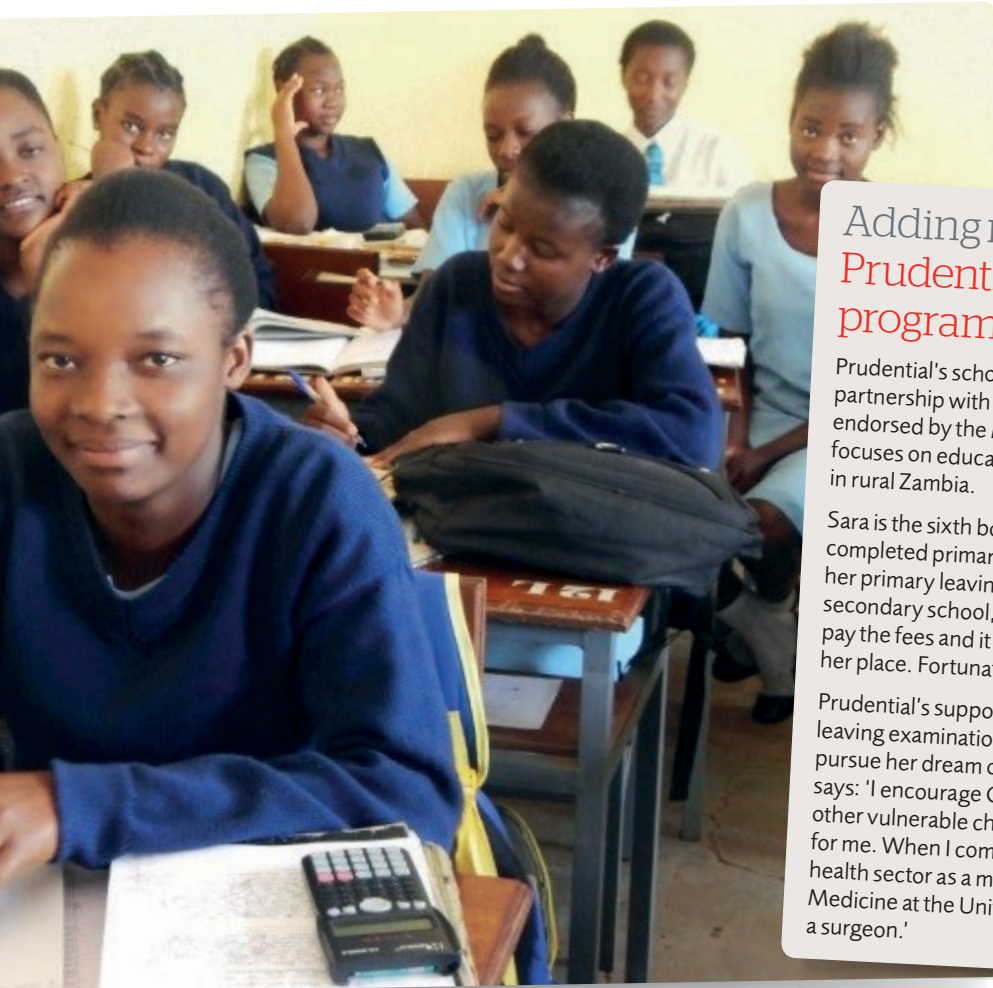
Our relationships with our customers are long term, so it is vital that our strategy and its execution ensure that we are a sustainable business. Our success in delivering for our customers and shareholders depends on effective engagement with our stakeholders. Our business model is set out on pages 12 to 13.

Managing a sustainable business means managing a wide range of ESG issues. Every one of these areas is integral to our performance and sustainability and we approach them accordingly. We recognise that the ESG landscape is changing and position ourselves to adapt to this proactively.

### Managing our material ESG issues

In 2016, we undertook a Group-wide review to identify the ESG issues that are most material for Prudential. We determined the relevance and significance of each ESG issue, based on the risks and opportunities to Prudential and our stakeholders, and prioritised these issues according to the greatest impact to the sustainability of our business. Our material ESG issues fall into the following areas: business integrity, customers, environment, responsible investment, suppliers, technology, people and communities. These remain the most material issues for Prudential.





## Adding more to life: Prudential Scholarship programme, Zambia

Prudential's scholarship programme in Zambia is run in partnership with the international charity, Camfed, and was endorsed by the Ministry of Education. The programme focuses on educating young girls and people with disabilities in rural Zambia.

Sara is the sixth born in a family of eight children. Having completed primary school and achieved impressive results in her primary leaving examination, she was awarded a place at secondary school, but her parents did not have the money to pay the fees and it looked as if she would have to turn down her place. Fortunately, Sara was awarded a scholarship.

Prudential's support is enabling Sara to take her final school leaving examination, giving her the potential to go on and pursue her dream of becoming a medical professional. She says: 'I encourage Camfed donors to continue supporting other vulnerable children in the same way they have done for me. When I complete my Grade 12, I wish to work in the health sector as a medical personnel by studying for Medicine at the University of Zambia, if possible becoming a surgeon.'

### Business integrity

At Prudential, responsible and ethical behaviour is a business imperative and is integrated throughout our operations and locations. We believe that the way in which we conduct ourselves on a daily basis is key to building trust, maintaining our reputation and positive relationships with our stakeholders and ultimately in achieving long-term business success. We have embedded a robust framework throughout our operations to ensure that we are able to effectively manage existing and emerging risks in this area, including maintaining our financial strength, fighting financial crime, undertaking responsible tax practices and upholding the highest standards for professional conduct.

### Customers

Serving our customers well is core to our strategy and to creating long-term sustainable value. We provide fair and transparent products that meet our customers' needs, often providing solutions to the biggest financial challenges of their lives. Prudential serves a global customer base with a broad range of needs. The financial challenges facing our customers continue to change and we want

to serve our customers for the long term, which involves proactively listening to their needs and developing our products and solutions to improve financial access and deliver consistent, long-term sustained performance.

### Environment

Managing the climate-related risks facing our business is crucial to creating long-term value for our customers, shareholders and the communities of which we are a part. As an occupier of approximately 400 properties worldwide, we recognise the importance of our own internal environmental targets and decarbonisation goals in reducing our direct footprint. As a life insurer, asset owner and manager, we also recognise the positive role we can play in financing the transition to a low-carbon economy and in managing associated risks.

### Responsible investment

Responsible investment for us is the integration of ESG considerations into our investment processes and our stewardship activities. Our general approach is one of 'inclusion' through engagement with investee companies and active ownership practices rather than 'exclusion'

(the restriction of investment opportunities). However, we maintain the ability to exclude entities from our internal insurance mandates, where their practices, policies or procedures conflict with our Group values, or where we see a need to explicitly recognise international consensus. To date, owing to the decentralised nature of our Group, our asset management and ownership businesses have managed ESG risks in our investment portfolios, distinctly. In recognition of the importance of ESG in delivering long-term sustainable returns across our investment portfolio, we created our Group Responsible Investment Framework during 2017. The framework sets minimum requirements and provides guidance that enables our Business Units to explain, in a manner that is consistent with our Group Values and Code of Conduct, how they incorporate ESG considerations into their investment processes and stewardship commitments as asset owners. Further information on our Group Responsible Investment Framework will be found in our 2017 ESG Report.

# Corporate responsibility review continued

## Suppliers

As a global financial services organisation, we source goods and services from thousands of outsourced and third-party suppliers across the world. We recognise the need to source these goods and services in a way that maximises value and minimises our supply risk, and we do this in an ethically and socially responsible manner. Given the number of our outsourced and third-party supply relationships, we also have a responsibility to make it as simple as possible for our suppliers to do business with us. We manage this through our responsible procurement practices. We believe in respecting human rights and acting responsibly and with integrity. We have always believed this commitment extends beyond our organisation and into our supply chain. For information around modern slavery and how we are identifying and managing our risks in relation to slavery, human trafficking, child and forced labour, please read our forthcoming 2017 Modern Slavery Statement.

## Technology

Emerging technologies enable us to provide financial protection to previously unreachable communities and deliver better, more efficient outcomes for our

customers. They also bring new concerns, in particular cyber risks, which pose threats to our business operations and the customer data that we hold and protect. Cyber risk remains a prominent concern and focus area for regulators and corporates globally, and could have a significant impact on business continuity, our customer relationships and our brand reputation. We closely monitor and respond to developments in this area, to ensure that we can maximise the benefits of new emerging technology while minimising the risks.

## People

At Prudential we encourage an inclusive working environment where we continually develop our talent, reward great performance and value our differences in order to deliver outstanding service and products for our customers, shareholders and communities. This is achieved through our continued focus on diversity and inclusion, talent development, performance and reward and health and safety.

Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2017 can be found in our Governance statement on page 101.

## Communities

We recognise that we have a role to play in the broader sustainable development agenda, for example in building financial literacy and improving financial inclusion. Our community investment strategy is closely aligned with our business objectives and with our stakeholders' concerns and interests, and is aimed at protecting and encouraging more sustainable and resilient communities. To achieve this, our programme is focused around four principal areas: social inclusion, financial education and life skills, disaster preparedness, and employee engagement.

Further information on our material ESG issues, including 2017 progress and performance can be found in our forthcoming 2017 ESG Report. For more information on the principal risks facing our business and general risk governance and risk management policies and procedures and how these are managed, refer to the report on the Risks facing our business and how these are managed on pages 48 to 63.

## ESG policy framework – Group Governance Manual

Group-wide ESG standards are established through the Group Governance Manual. The Manual sets out the policies and procedures by which the Group operates within our framework of internal governance, taking into account relevant statutory and regulatory matters. Group-wide policies relating to the Group's material ESG issues include:

### Material ESG issues

### Our Group-wide policies\*

#### Business integrity

- **Code of Business Conduct Policy**, setting out the standards that are required across the Group, by all employees and any individuals and organisations acting on our behalf. This includes our core values – prudence, security, integrity and initiative – and that we pursue opportunities to grow our business in line with these values, and our commitments to our customers, investors and economies, our people and communities.
- **Anti Bribery and Corruption Policy**, outlining the value we place on our reputation for ethical behaviour and for financial probity and reliability, our prohibition of corruption and the payment or receipt of bribes for any purpose and how we limit our exposure to this.
- **Anti Money Laundering and Counter Terrorist Financing Policy**, setting out our prohibition of money laundering and terrorist financing, and how we combat and limit our exposure to this.
- **Sanctions Policy**, outlining our commitment to complying with sanctions laws and regulation and how we comply with this through screening, prohibited business activity, restricting business activities and investigation.
- **Security Policy**, outlining how we ensure a level of security commensurate with our regulatory and legal obligations, while meeting the demands of our competitive, commercial organisation. This includes our principles to enhance commercial opportunity, while minimising corporate risks utilising financial crime and fraud investigations and 'Speak out' whistleblowing processes.
- **Tax Risk Policy**, covering our processes to identify, measure, control and report on tax-related risks, including technical judgement, operational, regulatory and reputational tax risk.

<b>Material ESG issues</b>	<b>Our Group-wide policies*</b>
<b>Customers</b>	<p>— <b>Customer Commitments Policy</b>, covering our five key commitments to our customers and how we assess, manage and report on these:</p> <ol style="list-style-type: none"> <li>1 Treat customers fairly, openly and honestly;</li> <li>2 Provide and promote a range of products and services that meet customer needs, are easy to understand and that deliver real value;</li> <li>3 Maintain the confidentiality of our customer information (except where the law requires disclosure);</li> <li>4 Provide and promote high standards of customer service and monitor these standards rigorously; and</li> <li>5 Ensure that our complaints processes provide an effective and fair means of arbitration between the Group's businesses and customers.</li> </ol>
<b>Environment</b>	<p>— <b>Environment Policy</b>, covering how we manage the impact of our businesses on the environment, including our environmental commitments and how we measure, monitor, review and report on our environmental performance.</p>
<b>Responsible investment</b>	<p>— Owing to the distinct investment risks faced by our asset management and ownership businesses, with each investing in different markets and asset classes, each business manages ESG-related matters through the pursuit of business-specific responsible investment policies. This is overlain by our Group-wide Responsible Investment Framework, aligned to our Group-wide Code of Conduct and underpinned by our Group Responsible Investment Standards. Further information on our Group Responsible Investment Framework will be found in our 2017 ESG Report.</p>
<b>Suppliers</b>	<p>— <b>Outsourcing and Third Party Supply Policy</b>, outlining our commitment to ensuring we have a robust, well managed outsourcing and third-party supplier network. It covers how we manage and oversee these arrangements, through: due diligence/selection criteria, contractual requirements, the ongoing monitoring of such relationships and reporting and escalation. Additionally, our policy considers the requirements of the UK Modern Slavery Act, and the principles of the UN's Universal Declaration of Human Rights.</p>
<b>Technology</b>	<p>— <b>Risk Security Policy</b> – we are in the process of updating our data protection policies to prepare for the implementation of the General Data Protection Regulation (GDPR). This policy ensures the protection of information, information systems and technical infrastructure from unauthorised access, use, disclosure, disruption, modification, or destruction, in order to provide confidentiality, integrity, and availability of information.</p>
<b>People</b>	<p>— <b>Diversity and Inclusion Policy</b>, setting out how we foster an inclusive workforce and ensure all our employees are treated fairly and feel valued, and together have the diversity in skill sets and backgrounds that enriches the organisation. Our policy considers a range of diversity aspects of our employees, including gender, age, ethnicity, disability, sexual orientation and background. Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2017 can be found in our Governance statement on page 101.</p> <p>— <b>Employee Relations Policy</b>, outlining the way we engage our employees and motivate them to achieve success for the Group: promoting positive relationships with employees, representative organisations and trade unions, and maintaining a positive reputation for the treatment of employees.</p> <p>— <b>Performance and Learning Policy</b>, setting out the importance of our people and framing how we invest in their development to deliver against our strategy and the future success of the organisation. This includes our Performance Management Framework.</p> <p>— <b>Remuneration Policy</b>, outlining our effective approach to appropriately rewarding our employees in a way which: aligns incentives to business objectives and enables the recruitment, retention and incentivisation of high-calibre employees in line with our risk appetite and Group Reward Principles.</p> <p>— <b>Talent Policy</b>, demonstrating how we attract and select the best people for roles that will ensure high performance in the short term and improve the longer-term succession and talent pipeline. It sets out our fair and effective approach to pursuing this.</p> <p>— <b>Health and Safety Policy</b>, covering our employees, business partners, customers and others that may be affected by our operations. This details our health and safety core principles, our commitments and the measuring and reporting on our health and safety performance.</p>
<b>Communities</b>	<p>— <b>Community Investment Policy</b>, outlining our commitment and approach to being an active and supporting member of the community. The policy includes the development of our community investment strategy and sets out investments that are not permitted, relevant records and reporting.</p>

\* In addition to our Group-wide policies, our business units have underlying business-specific policy frameworks, reflective of their individual risks and operating environments. For the purposes of this report, we focus primarily on the Group policy framework.

## Corporate responsibility review continued

The Group Governance Manual is used as a platform for mandating specific ways of working across the Group. Each Business Unit chief executive attests annually to compliance with applicable requirements set out in the Group-wide ESG policies, including matters that must be reported to the Group. Specific procedures are followed for the reporting of non-compliance. Business units present such instances in their annual certification, which in turn is reported to the Group Audit Committee.

### **Due diligence on ESG-related policies**

A key component of the Group Governance Manual is the Group Risk Framework, which requires all Business Units to establish processes for identifying, evaluating and managing risks, including those relating to ESG issues. This includes conducting due diligence on related policy requirements. Compliance guidance is also provided by the policy owners to clarify Business Unit scope and minimum evidencing standards required to demonstrate compliance.

The Group Audit Committee reviewed the results of the year-end certificate of compliance with Group Governance Manual requirements. While a number of improvements to ensure the policies are fully embedded were discussed, no significant areas of non-compliance in relation to the policies relevant to ESG issues were noted.

For further information on our Group business standards and policies pursued in relation to our material ESG issues, refer to the 'Business standards' pages of our website at: [www.prudential.co.uk/responsibility/standards](http://www.prudential.co.uk/responsibility/standards)

### **Serving our customers**

Improving the lives of customers is at the heart of what we do. Across our markets in Asia, the US, the UK and Europe and Africa, the needs of customers are often very different and this is reflected in the products we offer, but wherever we operate we aim to remove uncertainty from life's big events and help customers build their lives with confidence. Whether that means starting a family, saving for a child's education or planning for old age, our products are shaped around that core purpose.

#### **Asia**

In Asia, the demand for savings and protection products continues to grow as people seek greater financial security and peace of mind. Lack of insurance protection is one of the primary reasons

why a middle-income family falls below the poverty line following a significant life event, and through some of our products that situation can be averted. We continue to broaden our offering to help meet the distinct needs of our customers.

The value of insurance in helping customers move away from poverty is being increasingly recognised. The China Insurance Regulatory Commission, for example, has set a penetration target for insurance of 5 per cent by 2020, from a current rate of only 2 per cent. We are working with the Chinese authorities to help them reach that target and deliver all the benefits to both customers and communities that our industry's products bring.

Our 15 million life insurance customers in Asia give us access to fast, comprehensive feedback on what they want, how their needs are evolving and how we can best adapt our products and capabilities to improve our service and operational efficiency.

Customers are increasingly looking for product features that reflect changes in their own lives. One of these is a more personalised approach, and one example of how we are addressing this demand is 'myDNA', a DNA-based, personalised precision health programme, which we are making accessible to more customers across the region. Following its successful launch in Hong Kong in 2016, 'myDNA' can now be accessed by customers in Singapore, Malaysia and Vietnam, with its launch in these markets last year.

Last year, Prudential Hong Kong also introduced 'myDNA Pro', which offers users a simple DNA test and lifestyle assessment to evaluate the overall risk of developing three common and potentially life-threatening conditions – type 2 diabetes, hypertension and high cholesterol. It includes a dedicated mobile app which offers guidance from a personal health coach, plus a 16-week programme to help customers establish good diet, nutrition and exercise regimes, and reduce their risks of developing these three debilitating conditions.

Through both 'myDNA' and 'myDNA Pro', we are enabling our customers to make better lifestyle decisions and ultimately lead healthier lives, bringing benefits to families and communities.

Customers are also increasingly expecting an on-demand digital experience in all areas of their lives, and we are meeting that

need in a number of ways. In Singapore, Vietnam and Hong Kong, we have launched artificial intelligence-driven chatbots. Prudential Vietnam's 'PruBot', available on its corporate website and Facebook page, provides customers with 24/7 support by answering queries related to its products and services, as well as helping them schedule appointments with financial consultants. 'AskPRU' allows Prudential Singapore's financial consultants to instantly retrieve information specific to their customers' life insurance plans.

Prudential Vietnam has also launched 'Matchbook', a mobile app allowing customers to choose their financial consultants based on several criteria, including preferred personality traits and type of consultation services they require, and to make appointments.

Prudential Malaysia has launched 'PRUDream Planner', a first-of-its kind needs-based mobile app that allows its financial consultants to provide tailored solutions to customers, enabling them to collect pertinent information on customers' financial profiles, assess their needs and financial priorities in relation to their life goals, and navigate our wide selection of insurance solutions to provide tailored recommendations.

Prudential Singapore's ground-breaking 'PRU Fintegrate Partnership' identifies fintech startups from around the world to co-develop digital solutions for customers. The scope of these solutions covers the entire value chain – from helping customers understand how to bridge their protection gaps and to plan for their financial future, to simplifying purchase and claims processes and improving service levels.

Another example of how we develop our products in response to the needs of customers in different markets is Prudential Indonesia's launch last year of 'PRUprime healthcare', a hospitalisation product that is comprehensive, offers growing benefits and is available to customers in both conventional and sharia versions. The plan provides an additional 10 per cent of the annual benefit limit if no claims are made within a year, up to a maximum of 50 per cent of the initial annual limit. It also offers cashless admission, where a letter of guarantee is issued by Prudential Indonesia to the hospital so the customer does not have to pay upfront, at a wide network of partner hospitals in Indonesia, Singapore and Malaysia.

## US

Jackson provides retirement income strategies aimed at the approximately 75 million baby boomers in the US. Our pursuit of excellence in product innovation and our distinctive distribution capabilities have helped us forge a solid reputation for meeting the needs of customers, through a diverse range of variable, fixed and fixed-index annuity products. As part of a carefully designed plan, our variable annuities help retirees avoid running out of money and provide a reliable cushion against volatile markets. We support our industry-leading product development and distribution teams with award-winning customer service.

In 2017, Jackson launched two new fee-based variable annuity products: Perspective Advisory II (PAII), the next evolution of Perspective Advisory, and Private Wealth Shield (PWS), designed to serve clients within the trust market.

As with previous fee-based launches, PAII and PWS are intended to meet increased market demand for products compatible with fee-based accounts and platforms as a result of the US Department of Labor (DOL) fiduciary rules, released in April 2016. We believe commissions and fees can co-exist in the annuity space, and our growing suite of products is a step towards making this a reality for our distribution partners.

PAII has more than 130 investment options, providing access to world-class money managers and the flexibility to build a portfolio that meets consumers' investing needs. Furthermore, this product has no surrender charges and a low-cost sub-account structure. A robust suite of optional living and death benefits is also available for an additional charge, designed to provide the opportunity to grow retirement assets and obtain guaranteed income for life.

PWS will be sold through companies in the trust space, following a distribution process that differs from Jackson's other products. The company has developed a Trust Team to form relationships with professionals in the private wealth and trust industry who are interested in using annuities in trusts to manage taxes and control income for multiple generations.

In 2017, we also introduced 'Retire on Purpose', a new platform with a focus on thoughtful life planning as a crucial first step towards creating a comprehensive financial plan. The presentation and its accompanying materials are designed to help advisers build richer relationships with

their clients and integrate a more holistic approach to financial and life planning in their practices.

Jackson has been simplifying the language used around financial products to make them clearer and more transparent for consumers, and change the conversation to focus on planning for the lifetime income consumers need to live well throughout their lives. To promote this simple language approach, Jackson has launched a new website, The Financial Freedom Studio ([www.jackson.com/financialfreedomstudio/](http://www.jackson.com/financialfreedomstudio/)), which now serves as the company's central content 'hub.' The site is an evolution and expansion of the financial education resource for consumers, the Center for Financial Insight.

## UK and Europe

Growing customer demand for comprehensive financial solutions was at the heart of our announcement in August 2017 that we were combining our asset manager, M&G, and Prudential UK & Europe to form M&G Prudential, a leading savings and investments business. The combined business manages £351 billion of assets for more than six million customers, both in the UK and internationally, and will leverage its scale, financial strength and complementary product and distribution capabilities to enhance the development of capital-light, customer-focused solutions.

The new entity combines M&G's active investment expertise with Prudential UK & Europe's capabilities in volatility-adjusted savings and liability-driven investment to provide more choice for customers across both brands through retail, institutional and direct channels. The unified business is also better positioned to develop and fund joint product propositions and to build new digital service and distribution to meet fast-changing customer needs.

With core strengths in with-profits and retirement solutions, M&G Prudential is well positioned to continue to meet the growing needs of customers taking on the responsibility for managing their own savings, following reform of the UK's pension and retirement income system in 2015. The Prudential Retirement Account, which allows customers to save flexibly for their retirement and access their retirement income, has proven extremely popular since launching at the end of 2016, accumulating assets under management of £7.2 billion in its first year.

The proven investment capability and risk-managed solution offered by our PruFund range of investment fund options also continues to meet customer needs, especially for those investors who are moving towards the latter stages of saving before needing to secure an income for their retirement. In offering unparalleled diversification, financial strength and smoothed investment returns across ISA, bond, pension income and drawdown products, the assets under management in PruFund reached £36 billion in 2017.

The service we provide to customers and financial advisers goes hand-in-hand with the retirement solutions we offer. An important part of this service is the ongoing support for intermediary advisers provided by our regional sales units, business development team and technical helpline, which handled 17,000 adviser enquiries in 2017.

A number of technology improvements were delivered in 2017, each designed to help reduce the time advisers spend on administration. These included the introduction of paperless offshore bond claims and an electronic signature facility for the Prudential Retirement Account.

A further customer milestone was reached in 2017 when our digital customer engagement strategy reached one million customer log-ins through the MyPru service, a customer portal giving access to update contact details, view annual statements and check valuations and payment information online.

External recognition at the 2017 Financial Adviser Service Awards saw us retain the coveted Five Star ratings in the Life and Pensions and Investments categories for the seventh consecutive year. We once again achieved success at one of the most sought-after awards in our industry, receiving top awards at the Investment Life & Pensions MoneyFacts Awards in 2017 for Best Investment Bond Provider and Best Income Drawdown Provider.

## Corporate responsibility review continued

In investment management, M&G Prudential is a long-term investor that takes seriously its responsibilities as a steward of clients' assets. Our fund managers believe that if a company is run well it is more likely to be successful in the long run. Regular meetings with company directors allow us to identify whether a company's strategy is aligned with our interests as long-term shareholders and the interest of our customers. Active voting is an integral part of our investment approach, both adding value and protecting our interests as shareholders and those of our customers. We provide transparency on our voting record by publishing it quarterly on our website at [www.mandg.com/about-us/responsible-investment/equities/voting-history/](http://www.mandg.com/about-us/responsible-investment/equities/voting-history/)

In 2017, we launched myM&G, a new online investing service. Over 90 per cent of our direct customers will benefit from lower fund charges if they move their old paper-based account to the online service, which is free to join and carries no platform or service fee. A customer with £100,000 invested across M&G equity funds which offer R class shares, for example, should save at least £5,000 in fees over 10 years by switching their account to myM&G.

At M&G, we actively involve our customers in the development of services such as myM&G, as well as new products and investor communications. This is achieved through engagement with end investors, including our Client Council, our own panel of around 400 direct customers. During 2017, our principal research focus has been to engage with private investors, including those in our Client Council, to understand the role that socially responsible investing plays in driving their investment decisions and how they would like to receive more information about responsible investment.

In Africa, we are continually looking for new ways to meet our customers' needs, and in 2017 we rolled out a new 'never lapse' feature in Ghana. This addresses one of the main concerns our customers in Ghana have about insurance – that unforeseen circumstances might lead them to miss premium payments on their insurance policies and result in them losing their benefits. This new feature ensures that, beyond the first policy year, the policy will never lapse or become inactive. The feature is due to be rolled out in Kenya, Uganda and Zambia in 2018.

### Investing for positive change

As an asset manager and asset owner, we have the ability to affect positive change, indirectly through the direction of our capital and our customers' capital. We allocate our customers' capital into projects that fuel economic growth and improve the quality of people's lives, including through investments in affordable homes, transport programmes that cut commuting times, broadband networks that connect people and power stations using clean energy. These investments translate into strong, reliable returns for our customers and tangible benefits for the communities we serve. The long-term nature of the promises we make to our customers and clients makes long-term investments in infrastructure an ideal way of ensuring we can afford to meet those promises in full.

In 2017, Eastspring Investments announced a significant step forward in our infrastructure investment capabilities. IFC, part of the World Bank, chose Eastspring as its first Asian partner in a programme that mobilises funds from institutional investors into projects in emerging markets. This US\$500 million partnership will help us scale up our skills in the region. Worldwide, 1.2 billion people still have no access to electricity and 660 million lack a clean source of drinking water. This programme will help at least some of those people get these basic amenities, while at the same time helping our customers meet their own vital savings needs.

Our investment teams in Asia, Europe and the US are all working hard to invest with a positive purpose. Developed economies may not face the same basic threats to survival that are found in emerging markets, but traffic congestion, electricity 'brown-outs' and rural broadband black spots can constrain economic growth and make daily life frustrating. M&G Prudential is innovating in this important field. Our new Greenfield Fund will enable our clients to participate in infrastructure projects at an earlier stage than was previously possible, which will translate into stronger returns and more essential projects receiving the funding they need. The UK government in 2017 recognised our skills in this area by appointing M&G Prudential to manage a portion of its £400 million Digital Infrastructure Investment Fund, aimed at kick-starting better broadband connections across the country.

In the US too we are investing in important infrastructure. PPMA, our American asset manager, is helping states such as

California and Texas meet their ambitious green energy targets and reduce the risk of future power shortfalls, with investments in wind and solar generation. We have also made a recent investment in new storage batteries, which enable consistent power delivery from renewable sources.

The value we provide through investments in the real economy and through our products is complemented by investments in communities in each of the markets in which we operate. We provide support to charitable organisations through both funding and the experience and expertise of our employees.

### Supporting local communities

Our investments in communities are designed to support the communities in which we operate and deepen engagement with colleagues. As such, our community investment programme is linked to our strategy and is focused around four principal areas:

- Social inclusion;
- Education and life skills;
- Disaster preparedness; and
- Employee engagement.

We establish long-term relationships with our charity partners to ensure that the projects we support are sustainable, and we work closely with them to ensure that our programmes continuously improve. In addition, we believe it is important to make a contribution to delivering the United Nation's Sustainable Development Goals and we are supportive of those priorities.

### Education and life skills

#### *Cha-Ching – the first global financial education programme*

Developed by Prudential, Cha-Ching is the world's only global financial education platform aimed at primary school-aged children. Now in its seventh year, the programme has expanded from its origins in Asia to each of the four continents where the Group does business. In all of the markets where it has been launched it has been very well received, with positive feedback from parents, teachers, children and political stakeholders.

In Asia, the programme reaches over 34 million households a day through a multi-distribution platform including Cartoon Network, and through a school contact programme that has reached more than 300,000 children since inception. The standardised Cha-Ching curriculum developed in partnership with Junior Achievement has been well received and





## Adding more to life: Jackson National Life Insurance with Junior Achievement, US

Jackson volunteers worked with Junior Achievement Middle Tennessee (JA) to teach work-readiness, entrepreneurship and financial literacy skills through hands-on programmes in schools, and led a programme at the Nashville Rescue Mission, a shelter for families experiencing homelessness. Through this partnership, JA was able to reach students outside the traditional classroom and provide experiences to help young people break the cycles of financial and personal hardship.

Jackson volunteers joined nearly 700 students at a STEM (science, technology, engineering and mathematics) Summit, which combined hands-on activities in the fields of science, technology, engineering and mathematics with a career panel from employees in many fields of the local economy. Colleagues also provided support at the JA Finance Park, an experiential budgeting simulation facility to help students build a foundation for smart financial decisions.

rolled out to more than 90,000 students in Indonesia, the Philippines and Malaysia. In addition, Cha-Ching increased its presence during the year on digital platforms, including a new smartphone app called the 'Cha-Ching Challenge', which helps further engagement with children.

In the US, the Jackson Charitable Foundation has introduced Cha-Ching nationally in a partnership with Discovery Education and Junior Achievement USA. The Jackson Charitable Foundation has integrated Cha-Ching videos and lessons into Junior Achievement's third grade classroom programme, which is funded by the Foundation for six years and is expected to reach approximately 2.7 million students over that time, in 15,000 classrooms annually throughout the country. The partnership with Discovery Education is aimed toward supporting educators and includes free classroom activities and teacher guides to use Cha-Ching in their classrooms and will reach more than 1 million students across the country.

In the UK, working with Young Enterprise, we have developed an online educational resource for primary school students in England and Wales that has enabled the Cha-Ching programme to be brought into the classroom. The Quality Marked teaching resource is linked to the Personal Finance Education Group's Financial Education Framework and has guidance for teachers on how most effectively to integrate activities into their teaching as well as activities for home-learning. Since launch in late 2016, the resource has been downloaded over 20,000 times in more than 650 schools across the UK.

In other markets, the online educational resource has also been utilised to support the roll-out of the Cha-Ching programme across our African markets as part of a financial literacy campaign delivered jointly by Junior Achievement Africa and Prudential Africa employees. Cha-Ching was launched in Poland in 2015 and the first 10 films were translated into Polish and aired on several children's television channels. A website with materials for children and teachers was created to share in local schools.

### **First Read – developing children's skills**

Prudence Foundation has funded and supported the First Read programme since 2013, partnering with Save the Children to focus on investing in early childhood care and development in Cambodia and the Philippines. First Read is a programme that helps parents to develop their children's numeracy and literacy skills by providing books in the local language or dialect, and encouraging them to read, sing and count together. It also helps parents understand the importance of healthy and nutritious food for children's development.

Since First Read's inception, over 270,000 children and adults have benefited directly and over 540,000 community members indirectly. In 2018, the partnership will continue, with Save the Children focusing on quality implementation and building a strong evidence base to demonstrate First Read's impact.

### **Fostering careers in IT and coding**

Through four programmes, Jackson's IT employees are devoting considerable personal time and skills toward increasing IT exposure to diverse youth in Middle Tennessee. In 2014, Nashville IT associates adopted a small coding club at Woodland Middle School in Williamson County. The programme has gained momentum through Jackson and other local businesses' volunteers. So much so, that after seeing the impact of volunteer efforts alone, the school system invested in paid training for teachers to further support and professionalise the efforts.

### **Female colleagues encourage careers in finance**

Since 2014, Jackson has supported Rock the Street, Wall Street (RTSWS), a charity that increases financial literacy and interest in finance careers for high-school girls. What began in 2014 with a field trip to the Jackson Sales Desk has grown over time, with Jackson now sponsoring two RTSWS classes at Ravenwood and Centennial High Schools. Sponsorship of a class is much more than the financial contribution, also entailing five female sales professionals teaching a six-week curriculum, hosting students for a field trip, pairing students with female finance professional mentors and creating job shadow experiences with their mentors.

### **Supporting young people with employability and financial skills**

M&G Prudential is a partner member of the KickStart Money primary financial education programme. The programme aims to reach 20,000 primary school children and focuses on saving, budgeting, careers, borrowing and consumer and public finance.

Through three secondary school partnerships in Paddington, Reading and Stirling, Prudential UK has also been directly involved in building the knowledge and skills of young people. These partnerships have supported over 3,700 young people since 2013, with 360 employees giving their time and sharing their knowledge and skills. The M&G business is a supporter of The Lord Mayor of London's Appeal Charity, which aims to work towards a City that is healthy, skilled, inclusive and fair.

Prudential's partnership with MyBnk, which delivers financial literacy programmes in secondary schools in London, helped develop money skills for 5,000 young people in secondary schools in deprived areas of the capital.

### **Secondary school scholarships across Africa**

In our new markets in Africa we have committed to provide support for academically able but financially disadvantaged high school students, and to help build capacity for training in actuarial sciences at local universities. Prudential has worked with a number of charities operating in Ghana, Kenya, Uganda and Zambia by funding educational programmes and projects since 2014. Education and gender equality are key priorities and we have already

provided scholarships to 700 young people on the continent and expect to reach over 1,000 more in the near future. These programmes have focused on allowing vulnerable children in these countries to access quality education through the provision of scholarship awards, as well as ensuring that those marginalised by society receive education, skills and support.

### **Disaster readiness and relief Helping to make Asia more prepared and safer**

As a life insurance and asset management company, our core business is to help protect and reduce the vulnerability of individuals and their families in the face of unfortunate events. Asia Pacific is the world's most disaster-prone region so Prudence Foundation is working with humanitarian and private sector organisations and governments to help communities better prepare for disasters and also, when required, provide immediate emergency response and longer-term recovery support.

Aligned with aiming to protect communities and make them less vulnerable in emergency situations, Prudence Foundation launched its third Safe Steps programme in September 2017. Safe Steps First Aid is in partnership with the International Federation of Red Cross and Red Crescent Societies (IFRC) and National Geographic. It builds on the success of its previous two Safe Steps programmes, which focus on natural disasters and road safety. Safe Steps First Aid provides essential, easy-to-understand first aid information to millions of people throughout Asia.

Safe Steps is a first-of-its-kind, in terms of reach and breadth of partnerships, pan-Asian public service initiative to enhance awareness through the dissemination of educational survival tips for natural disasters, road safety and first aid. It is a multi-platform programme including on-air video messages and informative website and educational collateral that can be shared among communities. Core to the programme is a series of 60-second educational videos that advise individuals and households on what to do should a natural disaster strike, how to be safe on the roads and what to do if they encounter a first aid emergency.

The programme has been well received and partnerships continue to be formed across Asia, helping to spread the messages, including free-to-air channels, radio stations and cinema. Through these

partnerships, Safe Steps currently reaches more than 200 million people a day in Asia.

### **Safe Schools programme**

Prudence Foundation supports the Safe Schools programme, partnering with Plan International and Save the Children in Cambodia, Indonesia, the Philippines, Thailand and Vietnam. The programme focuses on capacity-building for students, teachers and local community members on disaster preparedness, placing schools at the heart of building a culture of disaster preparedness within communities. The programme trains students and their teachers in key disaster management skills and supports the organisation of disaster simulations and evacuation drills for students and their communities. Since 2013, more than 82,000 students and 33,000 teachers have participated.

### **Volunteering to build disaster-resilient homes**

Prudence Foundation continues to provide support to major emergency relief efforts across Asia. During 2017, Prudence Foundation completed its long-term commitment to support the Typhoon Haiyan/Yolanda disaster recovery efforts in the Philippines. In March, around 70 volunteers spent one week helping to complete the building of 126 homes with partner Habitat for Humanity and the local government. In total, almost 400 regional volunteers have donated their time and skills to help Bantayan Island since 2014.

### **Emergency fund relief**

Prudential has also been a Group-level supporter of Save the Children since 2010 and is one of the Children's Emergency Fund's major supporters. This allows us to act swiftly when disasters occur in any of our markets and provides an instant, effective fundraising mechanism for employees when needed. In 2017 the emergency fund was used 81 times and reached over a million people in 40 countries caught up in emergencies.

This included help for casualties of heavy monsoon rains in India, Bangladesh and Nepal, a mudslide in Sierra Leone, an earthquake in Mexico and hurricanes in the US.

### **Social inclusion**

#### **Commitment to social inclusion in the UK through Prudential RideLondon**

In the past five years Prudential RideLondon has raised over £50 million for charity and become one of the UK's largest fundraising events. In 2017, more than 846





## Adding more to life: PruGoals programme, UK

Prudential's PruGoals programme provides inspiration and support for disadvantaged young people, helping them build confidence and employability and encouraging personal motivation. The programme provides aspirational challenges and workshops leading up to the Prudential RideLondon-Surrey 46 mile cycle ride, and participants are provided with bikes, training and equipment, as well as coaching and mentoring.

Around 260 students completed the PruGoals programme in 2017 as part of Prudential's partnership with Teach First and Greenhouse Sports, and 82 per cent said that taking part in PruGoals had changed their mindset in a positive way. Jessica, aged 16, said: 'I have developed motivation skills and learnt that I can complete anything if I put my mind to it', and Fatima added: 'I've realised as part of this programme that a strong mindset is important. If I want to accomplish something, I can.'

charities benefited from riders' fundraising, up from 740 in 2016. Prudential has sponsored the event since inception in 2013 and, as part of our renewal of the sponsorship in 2016, we decided to refocus support to concentrate on charity and community engagement. The PruGoals programme helps young people to achieve their goals regardless of social or economic background by providing aspirational challenges culminating in taking on the Prudential RideLondon-Surrey 46. In 2017 this programme supported 300 disadvantaged young people to take part in the Prudential RideLondon-Surrey 46.

Following the success of the 2016 'Fixing Dad' documentary, in 2017 Prudential supported the 'Fixing Challenge'. The new challenge followed four people hoping to improve their type-2 diabetes, weight issues or weight-related health concerns. As with Fixing Dad, the culmination of the Fixing Challenge shows the four individuals taking on the challenge of Prudential RideLondon-Surrey 100 and having their journey filmed as part of a new documentary.

### **Employee fundraising**

Jackson employees are actively engaged in our commitment to communities by taking part in programmes such as the Jackson National Community Fund Advisory Committee and the employee-nominated matching programme. The Jackson National Community Fund supports charities that help strengthen families and increase economic opportunities through bi-annual grants in communities where Jackson's largest offices are located. Jackson's matching programme offers a

two-to-one match on all employee donations made to approved charities. This programme ensures that causes important to employees are given charitable consideration and that Jackson's support is received by responsible organisations where funding will create a significant impact.

### **Enhancing later life**

Building on previous Age UK programmes, Prudential is funding the Later Life Links programme with the charity, providing long-term companionship, advice and practical help to older people. Launched in six UK communities in February 2017, the programme has supported over 9,000 older people in its first year. Last year also saw the launch of a new partnership with Royal Voluntary Service (RVS). First Time for Everything events run in 11 RVS centres, providing around 1,200 elderly people in 2017 with a chance to try something for the first time for free, such as tai chi, yoga and drawing, aiming to tackle loneliness and social isolation with the support of RVS volunteers.

### **Apprenticeships in the UK**

Youth unemployment is a huge social challenge and M&G Prudential is helping to shape future job prospects for young people.

Over the past five years Prudential UK has recruited over 200 young people to our apprenticeship programme. Based at our London, Reading or Stirling offices, apprentices gain important paid work and life skills as well as achieving recognised vocational and professional qualifications. In 2017, 40 apprentices completed a

13-month apprenticeship. 93 per cent secured ongoing employment with Prudential, while others choose to work elsewhere or move on to higher education. In 2017, the UK business was recognised as a 'Top 100 Employer for 2017-2018' by RateMyApprenticeship.

The clear benefits to both the young people and to the business mean Prudential is committed to continuing the apprenticeship programme but with an increased focus on social inclusion. Twenty two apprentices joined Prudential in 2017 on the apprenticeship programme, which targets GCSE and A-level school leavers, and in 2018 12 trainees will join the traineeship programme, which is aimed at recruiting young people aged 16 to 24 not in employment, education or training.

M&G has run its Apprentice programme for the last six years and, as part of Investment20/20, offers the scheme to encourage school leavers to establish a career in the financial services industry. The programme is designed to help people without degrees start their careers, straight after sixth form or college, providing an opportunity to receive on-the-job training and earn a competitive salary. A total of 65 apprentices have been hired by the business since 2012 across all Business Units, including fund management teams. One of the benefits of this programme is that the positions are permanent and training and development is undertaken from the outset.

# Corporate responsibility review continued

## **Support for disadvantaged communities**

M&G supports disadvantaged communities near its offices and during 2017 more than 190 charities received support either by donation or as a result of employee volunteering. Grants typically focused on education, medical research, social and welfare programmes and children and youth projects. In 2017, M&G continued its support of the City Giving initiative led by the Lord Mayor of London's Appeal, and an onsite event showcased the services provided by charities that had received support from M&G. The Lord Mayor of the City of London attended M&G's event as part of his initiative to promote the varied charitable activities undertaken by City businesses.

M&G continues to sponsor the RHS Chelsea Flower Show and is refocusing the sponsorship to increase charitable activity through support of RHS campaigns such as Greening Grey Britain, which aims to transform urban grey spaces into community green spaces.

## **Employee engagement Successful volunteering programme – Chairman's Challenge**

Many of our employees play an active role in their communities through volunteering, charitable donations and fundraising. In the UK, the US and Asia we offer our employees the opportunity to support charities through payroll giving.

Chairman's Challenge is our flagship international volunteering programme, bringing together people from across the Group to help in their communities. Colleagues from across the Group give their time and skills to support our global charity partners, including Plan International, Help Age International and Junior Achievement.

The programme continues to appeal to colleagues, with the number of volunteers signing up increasing year-on-year. From its launch in 2006, when 2,603 employees signed up, volunteer numbers have increased by 227 per cent. Last year 8,500 colleagues around the world took part, volunteering over 35,000 hours to support 30 projects.

Each volunteering project focuses on one or more of our CR priorities and allows us to support both large, well established charities and innovative, smaller-scale activities with volunteers as well as financial support. Prudential donates £150 to our charity partners for every employee who registers for the programme. Charity

partners use this money to seed-fund charitable projects for Prudential volunteers. Each year, employees across the Group are involved in the voting process to decide on the most innovative projects, which receive extra funding towards their charitable objectives.

## **Volunteering across the Group**

As well as volunteering efforts on behalf of the Chairman's Challenge, employees around the Group volunteered on a huge range of other charitable projects, from providing relief following disasters to mentoring schoolchildren, supporting the elderly and skills-sharing. We recognise that employee volunteering brings benefit not only to the charities but also to the development of our people, and we actively encourage colleagues to participate in our programmes.

## **Charitable donations**

We calculate our community investment spend using the internationally recognised London Benchmarking Group (LBG) standard. This includes cash donations to registered charitable organisations, as well as a cash equivalent for in-kind contributions.

In 2017, the Group spent £25 million supporting community activities. The direct cash donations to charitable organisations amounted to £19.2 million, of which approximately £4.9 million came from our UK and EU operations. The remaining £14.3 million was contributed to charitable organisations by Jackson National Life Insurance Company and Prudential Corporation Asia.

The cash contribution to charitable organisations from our UK and EU operations is broken down as follows: education £2,971,000; social, welfare and environment £1,861,000 and cultural £62,000.

The balance includes in-kind donations as set out on the Group website at [www.prudential.co.uk/responsibility/performance/community-investment](http://www.prudential.co.uk/responsibility/performance/community-investment) and prepared in accordance with LBG guidelines. This included 9,460 employees who dedicated 96,493 hours of volunteer service in their communities. Furthermore, £412,375 was donated across the Group by our employees through our payroll giving scheme.

## **Political donations**

It is the Group's policy neither to make donations to political parties nor to incur political expenditure, within the meaning of those expressions as defined in the UK Political Parties, Elections and

Referendums Act 2000. The Group did not make any such donations or incur any such expenditure in 2017.

## **Valuing our people**

We strive to foster an environment in which employees can derive meaning and empowerment from their work and feel that they are making an active contribution to the organisation. In addition to the core principle of providing interesting work and challenging opportunities to engage our people we drive employee engagement through an array of initiatives across our businesses. These include colleague appreciation programmes, wellbeing programmes, employee engagement surveys, networking opportunities with peers and senior leaders across functions, employee focus groups, and volunteering activities. The success of our engagement efforts has again been recognised externally by winning prestigious awards. For example, in 2017 M&G Investments was ranked number one Asset Manager in both the HITC Best Places to Work and the RateMyPlacement Top 100 employers surveys. Our businesses, including Group Head Office, have processes, and where appropriate a policy, in place for engaging with employees. In addition, our businesses in the UK have a longstanding relationship with the union Unite. We encourage volunteering through which our employees can support our communities and acquire new skills. See page 76 for further detail.

## **Diversity and inclusion**

Prudential believes that diversity of experience and background is vital to success, both today and in the future. The Board has made D&I one of the strategic objectives for Prudential. Tim Rolfe, Group HR Director, is the executive responsible for sponsoring D&I activities across the Group, with Nic Nicandrou, Chief Executive of Prudential Corporation Asia, acting as the Board member accountable for D&I work. Our policies and plans support an inclusive culture sensitive to the needs of all employees. We protect all our employees against discrimination and provide opportunities for our people regardless of their age, caring responsibilities, disability status, ethnicity, gender, religion, sexual orientation or professional and educational background. We make appropriate disability adjustments as required and provide training and career development opportunities for all. We give full and fair consideration and encouragement to all applicants with suitable aptitude and abilities.



## Adding more to life: Prudential Charity Trustee programme, UK

Colleagues have been taking part in the Prudential Charity Trustee programme to develop valuable skills to become trustees on charity boards. A series of training workshops outlined what was involved in becoming a trustee and the skills and time required. Working with our charity partner, Getting on Board, colleagues were then given help to find the right role.

Melissa Kantor, from Prudential plc's Group Talent team, is now a trustee for SEED Madagascar, which is working to alleviate poverty and maintain the island nation's unique environment. 'Since joining SEED's board in May, I have learned much about functions outside my main areas of expertise and I hope to continue to be challenged outside my comfort zone', said Melissa. 'I am thrilled to be able to assist SEED by leveraging my corporate experience, largely around HR, relationships and governance.'

Tony Jones, Chair of Trustees at SEED Madagascar, said: 'We have been fortunate recently in appointing two enthusiastic trustees with very relevant skills for us. Coming from major institutions which encourage staff to get involved in the third sector, we have enhanced our capacity to manage change more effectively and also to ensure our own staff and volunteers are properly motivated and rewarded.'

Photo © SEED Madagascar.

We aim to foster a working environment where individuals are empowered and differences recognised. We aspire that over time our senior management, including our Board, better represents the experiences and backgrounds of our customers and stakeholders. We recognise that diversity contributes to effectiveness and is essential for successfully delivering the strategy of an international Group. We are committed to recruiting and developing the best available talent and appointing the most appropriate candidate for each role while at the same time ensuring appropriate diversity of experience, skillsets and professional background. Further information on the diversity of our Board, our policy in respect of this, how this is implemented and the associated results in 2017 can be found in our Governance statement on page 101.

We have a strategic, long-term approach to D&I and the Board monitors progress regularly. We invest in targeted activity across 10 priority areas, ranging from unconscious bias training to mentoring and support for various affinity groups. In addition our commitment to D&I is supported, across our businesses, by initiatives such as reviews of pay, performance management consistency, providing training to staff, engaging with recruitment firms and awareness campaigns to diversify the pool of potential candidates.

For example, 268 senior managers and executives from our businesses in Asia, the US and the UK participated in unconscious bias workshops in 2017. We sponsored Dive In, the D&I festival in insurance and the financial sector, which took place in 17 countries in the Americas, Asia, Africa, the Middle East and Europe, and we published the first Group-wide D&I newsletter for all employees.

We are committed to developing a robust and diverse talent pipeline and increasing representation of women in senior positions in the Group and on the Board. We were among the first cohort of companies to sign the HM Treasury Women in Finance Charter in 2016. In 2017, we monitored progress against our target of 30 per cent of women in senior management by the end of 2021. We will continue to focus effort toward achieving our aim to have 27 per cent women in senior management by the end of 2019.

Please see Basis of Reporting at [www.prudential.co.uk/~/-/media/Files/P/Prudential-v2/content-pdf/basis-of-reporting-2017](http://www.prudential.co.uk/~/-/media/Files/P/Prudential-v2/content-pdf/basis-of-reporting-2017) for the definition of senior managers.

### Gender diversity: senior management



# Corporate responsibility review continued

## Prudential headcount as at 31 December 2017 – total population

Headcount	Total	Male	Female	Undisclosed <sup>2</sup>	Unspecified <sup>3</sup>
Chairman & Independent Non-executive Directors	9 =	8	1		
Executive Directors	6 =	5	1		
Group Executive Committee (GEC) Includes Executive Directors	11 =	10	1		
Senior managers Excludes the Chairman, all directors and GEC members	92 =	69	23		
Whole company <sup>1</sup> full time equivalent Includes the Chairman, all directors, GEC members and senior managers	24,711 =	11,777	12,864	23	47

### Notes

<sup>1</sup> Excludes Prudential Corporation Asia joint ventures

<sup>2</sup> In many of our businesses, we provide our employees with the option to not disclose their gender. For these employees, gender is recorded as 'undisclosed'.

<sup>3</sup> No specification or information is captured on gender for an immaterial number of our employees. These employees are recorded as 'unspecified'.

We believe in supporting human rights and acting responsibly and with integrity. Our policies are guided by the principles of the UN's Universal Declaration of Human Rights and the International Labour Organisation's core labour standards. These are also incorporated into our Group Code of Business Conduct, which sets out the Group values and expected standards of behaviour for all employees, and in our Group Outsourcing and Third Party Supply Policy. Our Business Units implement policies and practices at a local level that aim to ensure compliance with statutory and regulatory requirements in the local labour market and the prevention of slavery, human trafficking, child and forced labour. As a global business, focused on our customers, it is important that our employment models reflect the markets in which we operate. In certain markets, this means hiring local agents to sell our products, or partnering with joint ventures to offer the breadth of products and services that meet our customers' needs. We are clear – slavery, human trafficking, child labour or any other abuse of human rights has no place in our organisation or supply chain. This supply chain includes our joint ventures and the agents we use to distribute our products. For further information around how we manage slavery, human trafficking, child and forced labour risks, refer to our forthcoming Modern Slavery Statement.

### Talent development

People development is essential to deliver our strategy. The quality of leadership across the Group is fundamental to the future growth and success of the business and we therefore review our talent annually, and offer a range of programmes that enable our people to continue to grow and develop. The majority of our

programmes are managed by our Business Units, while Group Human Resources focuses on tailored programmes for senior leaders across the organisation, succession planning for senior roles and development of our leadership talent pipeline. We invest in succession planning for our leaders and critical specialists, and segment our talent to identify short, medium and long-term successors. We support them with the appropriate development and career planning to ensure that we maintain a relevant balance of internal progression and external hires. Individually tailored development offerings are provided for our most senior executives so they are well prepared to deliver the long-term ambitions of the Group. In 2017, 120 senior high-potential individuals participated in our established and well respected Group-wide leadership development programmes 'Impact' and 'Agility' and the 'Next Generation' emerging talent programme. These programmes were developed in partnership with world-leading academic institutions and co-delivered with business school thought leaders.

Within our businesses there are many examples of our continuing commitment to talent development. In 2015 we launched a Group-wide Long-Term Workforce Planning Initiative, which has progressed in 2016 and 2017. For example, in 2017 Prudential Corporation Asia deployed strategic workforce planning to predict the capabilities required to ensure our continued success utilising a succession-driven talent strategy to build the next generation of leaders with the capabilities we require. In the US, Jackson offers customised on-premises programmes, as well as access to an online university, to meet the personal and professional

development needs of employees with all levels of experience. M&G Prudential supports talent development through a range of development programmes to increase personal and organisational capability alongside bespoke development support for key individuals. GHO provides innovative programmes designed in partnership with top academic institutions and industry experts - focused on early career development, leadership development, and opportunities to develop a strategic and innovation mindset through varied career experiences and projects.

### Employee engagement

We want to foster an environment in which employees can derive meaning and empowerment from their work and feel that they are making an active contribution to the organisation. We drive employee engagement through an array of initiatives, including colleague appreciation programmes, wellbeing programmes, networking opportunities with peers and senior leaders across functions, employee focus groups, and volunteering activities with charitable causes such as Prudential UK's partnerships with numerous schools. Each of our businesses manage their own activities including employee engagement surveys, regular employee open-forums with senior management, and away days to discuss business performance and internal management. The success of our engagement efforts has again been recognised externally by winning prestigious awards. For example, in 2017 M&G Investments was ranked number one Asset Manager in both the HITC Best Places to work and the RateMyPlacement Top 100 employers surveys.

Our businesses, including GHO, have processes, and where appropriate a policy, in place for engaging with employees. Reporting to Group HR is required on jurisdiction specific or sector specific trends and developments in certain areas. For any significant issues that are likely to impact either positively or negatively on our reputation as an employer – at both business and Group level – immediate reporting to Group HR is required. In addition, our businesses in the UK have a longstanding relationship with the union Unite.

We encourage volunteering through which our employees can support our communities and acquire new skills. See page 74 for further detail.

### Performance and reward

Our reward arrangements are designed to attract, motivate and retain high-calibre people. Each individual contributes to the success of the Group and is rewarded accordingly.

We recognise and reward high performance and are committed to a fair and transparent system of reward. We have recently reported our 2017 UK gender pay gap figures/data along with information about how we are working to increase the number of women in leadership, investment management and senior operational roles.

Remuneration is linked to the delivery of business goals and expected behaviours and we ensure that rewards for our people are consistent with our values and do not incentivise inappropriate risk-taking. To enable this, employees are not only regularly assessed on 'what' they have achieved, but also on 'how' they have done so.

There are recognition initiatives running across our businesses, such as the Jackson High Five Recognition Program, which allows individuals to recognise when their colleagues go above and beyond, and for Prudential Stars awards at GHO, in which individuals can nominate their colleagues to recognise examples of exceptional contributions, specifically in the areas of delivering synergy, adding value, fostering innovation, demonstrating stakeholder focus and maintaining risk awareness. We also believe in the importance of giving employees the opportunity to benefit from the Group's success through share ownership, and operate share plans for employees in the UK and Asia. This includes PruSharePlus, which enables employees in Asia to share in the longer-

term success of the business, and actively encourages share ownership and engagement. Of all eligible employees, 59 per cent participate in the Group's UK Sharesave and 25 per cent in the share incentive plans.

### Protecting the environment and managing the risks from climate change

We take a long-term and holistic approach to managing the risks and opportunities posed by climate change and our impact on the environment and strive to play our part in reducing both our direct and indirect impacts where possible. Our long-term approach includes investing in the low-carbon economy, measuring and improving the environmental performance of our global operations and reducing the impact of our investments on the environment.

### Managing our climate-related risks and opportunities

As a life insurer, asset owner and manager, we are long-term stewards of our customers' assets and we recognise the challenge that climate change presents. We also recognise our responsibility to customers, society and the environment to effectively integrate associated considerations into investment decisions and fiduciary and stewardship duties and help finance the transition to a more sustainable economy. Active consideration of ESG factors is integral to our stewardship responsibilities. For example, in 2017 M&G Prudential joined Climate Action 100+, an initiative bringing together more than 250 global institutional investors to engage with the world's largest corporate greenhouse gas emitters to improve climate-related financial disclosure and curb emissions, and in October M&G Prudential launched the ESG Global High Yield Bond Fund, which fully integrates ESG factors into its investment process. In February 2018 Eastspring became the third Prudential signatory to the United Nations Principles for Responsible Investment, joining PPMSA and M&G. Further information on the indirect environmental impact of our asset management activities is available in our forthcoming ESG Report.

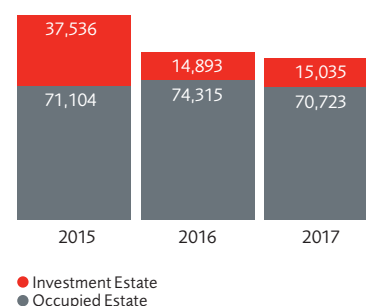
In 2017 the Financial Stability Board (FSB) published the recommendations of its Task Force on Climate-Related Financial Disclosures (TCFD). We welcomed the release of these recommendations, which provide additional guidance in this area. Currently, our oversight in this area is

provided at Group Executive Committee level by the Group's ESG sponsor, Jonathan Oliver, Group Director of Communications, who has responsibility for our corporate responsibility strategy and activities more broadly. The Board approves the Group's annual ESG Report, which is also reviewed by the Group Audit Committee and Group Disclosure Committee. We are in the process of refreshing our enterprise-wide assessment of climate-related risks, while also establishing the internal capabilities needed to make enhanced climate-related financial disclosures in future reporting periods, considering the geographical and asset class breadth of our investment activities.

### Managing our direct environmental impact

Managing the climate-related risks facing our business is crucial to creating long-term value for our customers, shareholders and the communities of which we are part. As an occupier of approximately 400 properties worldwide, we recognise the importance of our own internal environmental targets and decarbonisation goals in reducing our direct footprint. In 2017, we decreased our absolute greenhouse gas (GHG) emissions (scope 1 and 2) from our occupied estate and company-owned vehicles by 5 per cent to 70,723 tCO<sub>2</sub>e (2016: 74,315 tCO<sub>2</sub>e). This was driven by consolidation of our property portfolio and continued investment in energy efficiency initiatives through our mechanical and electrical life cycle replacement programmes to ensure that we occupy efficient buildings. When normalised against net lettable floor area, our GHG emissions efficiency metric improved by 2 per cent to 148 kgCO<sub>2</sub>e/m<sup>2</sup> in 2017 (2016: 151 kgCO<sub>2</sub>e/m<sup>2</sup>).

### Prudential Group Scope 1 and 2 GHG Emissions tCO<sub>2</sub>e





### Adding more to life: Jackson, a star performer

In 2017, Jackson were awarded a U.S. Environmental Protection Agency (EPA) Energy Star for a second building on our Lansing campus, demonstrating superior energy efficiency. Commercial buildings that earn EPA's Energy Star certification use an average of 35 per cent less energy than typical buildings. Our new building, 8 Corporate Way, received an Energy Star score of 93 placing it in the top 10 per cent of all similar facilities nationwide.

To earn the Energy Star certification, Jackson created a five-year energy plan that included the installation of new mechanical and electrical building controls to enhance monitoring and control of all systems, improving comfort and efficiency along with the advanced lighting controls to with occupancy sensors and daylight harvesting to maximise the use of natural light.

Jackson received honourable mention for best commercial project in Michigan State at the 2017 Governor's Energy Excellence Awards. As one of the largest companies in the Greater Lansing area, Jackson's commitment to energy efficiency and environmental conservation sets a positive example for other local companies and organisations and helps bring awareness to this important topic.

We improved our CDP Climate Change disclosure and were awarded a 'Leadership' ranking of A- (2016: B) and in ClimateWise, the insurance sector climate initiative managed by the Cambridge Institute for Sustainability Leadership, we improved our score, achieving 71 per cent (2016: 60 per cent). Our performance in ClimateWise against six core principles is independently audited by PwC.

We continue to develop our energy and environmental management strategies, 14 per cent of our global electricity consumption is now renewably sourced. In the UK, we successfully transitioned our environmental management system to ISO 14001:2015 and renewed our focus on waste and recycling by collecting our waste coffee grounds for energy recovery by conversion into biofuel. We are also rolling out advanced energy analytics software across our largest UK properties following a successful trial. In the US, we continue to demonstrate superior energy efficiency with an Energy Star score of 93 for our new corporate office in Lansing, placing it in the top 10 per cent of all similar facilities nationwide. In Asia we have developed an environmental management framework to review current site performance and identify opportunities for energy and water efficiency improvements for our most significant buildings.

M&G Real Estate, part of M&G Prudential, has an approach to responsible property investment that enables it to manage and respond to the growing range of environmental and social issues that can impact property values. It continues to decarbonise its property estate through continued LED lighting rollout and its first UK solar photovoltaic installation, covering an area of 3,800 m<sup>2</sup>, equivalent to 15 tennis courts. It is anticipated the system will generate enough electricity annually to power the equivalent of 68 average UK households and save 165 tonnes of carbon dioxide. M&G Real Estate's progress can be found in its annual Responsible Property Investment report at [www.mandg.co.uk/institutions/realestate/responsible-investing/](http://www.mandg.co.uk/institutions/realestate/responsible-investing/)

Further detail on our environmental performance throughout 2017 is available online and will be published in our 2017 ESG Report later in 2018, including performance against our global environmental targets framework.

### Prudential plc – greenhouse gas emissions statement

We have compiled our global GHG emissions in accordance with the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. GHG emissions are broken down into three scopes; we have included full reporting for Scope 1 and 2, and select Scope 3 reporting as best practice.

Scope 1 emissions are our direct emissions from the combustion of fuel, fugitive emissions and company owned vehicles. Scope 2 emissions cover our indirect emissions from the purchase of electricity, heating and cooling. We have reported our Scope 2 emissions using both the location and market-based methods in line with the GHG Protocol Scope 2 Guidance. Our Scope 3 footprint includes UK booked business travel, global water consumption and waste generated from our investment properties with operational control, UK and US occupied properties. We continue to work with our Business Units to review the extent of our Scope 3 reporting and increase coverage where practicable.

Please refer to our Basis of Reporting and supplementary reporting online for further detail on our methodology, reported consumption and drivers of variation.



Emissions source (tCO <sub>2</sub> e)		2017	2016	% Change
Scope 1	Occupied	10,498	10,233 <sup>1</sup>	3%
	Investments	7,703	7,814 <sup>1</sup>	-1%
Scope 2 – Location-based	Occupied	59,227	62,413	-5%
	Investments	18,751	21,398 <sup>1</sup>	-12%
Scope 2 – Market-based (supplier and residual mix)	Occupied	60,225	64,082 <sup>2</sup>	-6%
	Investments	7,332	7,079 <sup>2</sup>	4%
Scope 3	Group	15,313	11,580 <sup>1</sup>	32%
Scope 1 and Scope 2*	Occupied	70,723	74,315	-5%
	Investments	15,035	14,893	1%
<b>Total Scope 1 and 2*</b>	Group	<b>85,758</b>	<b>89,208</b>	<b>-4%</b>
<b>Total Scope 1, 2 and 3*</b>	Group	<b>101,071</b>	<b>100,788</b>	<b>0%</b>

Carbon intensity*		2017	2016	% Change
kg CO <sub>2</sub> e per m <sup>2</sup> – Scope 1 and 2 only	Group	31	34	-9%
kg CO <sub>2</sub> e per employee – Scope 1 and 2 only	Group	3.4	3.8	-12%
kg CO <sub>2</sub> e per m <sup>2</sup> – Scope 1, 2 and 3	Group	36	38	-5%

\* Note that when reporting Group totals, the market-based emission are used.

#### Data notes

Reporting Period:	1 October 2016 to 30 September 2017
Baseline year:	1 October 2015 to 30 September 2016
Independent Assurance:	Deloitte LLP has provided limited assurance over selected environmental metrics in accordance with the International Auditing and Assurance Standards Board's (ISAE3000 (Revised)) international standard.
Consolidation (boundary) approach:	Operational Control
Consistency with financial statements:	The reporting period does not correspond with the Directors' Report period (01 January 2017 to 31 December 2017) as it was brought forward by three months to improve the availability of invoice data and reduce reliance on estimated data.  Prudential owns assets, which are held on its balance sheet in the financial statements, over which it does not have operational control. These are excluded from the data below. Assets not included on the balance sheet but held under an operating lease and where we have operational control are included.
Emission factor:	Scope 1 and 3 reporting uses the UK DEFRA 2017 GHG Conversion Factors.  Scope 2 calculations use the IEA GHG 2017 Conversion Factors for location-based reporting. Market-based reporting uses supplier emission factors for our UK REGO-backed supply (Investment) and RE-DISS factors where available.
Accounting methodology:	The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard
Materiality threshold:	Five per cent

#### Notes

- 2016 figure restated as accurate data became available from suppliers.
- This figure has not been assured as not reported in 2016.

# Corporate responsibility review continued

## Accountability and governance for corporate responsibility

### The Board

The Board regularly reviews the Group's corporate responsibility performance and scrutinises and approves the Group corporate responsibility report and strategy on an annual basis.

### Local governance

We believe that CR is best managed on the ground by our people running the businesses. In M&G Prudential and Jackson there are governance committees in place – with senior management representation – that agree strategy and spend. In Asia, the Prudence Foundation has been established as a unified charitable platform to align and maximise the impact of community efforts across the region. The Prudence Foundation is governed by a statutory Board of Directors, under which a Board of Trustees operates as a decision-making forum, directing the management of the programmes in collaboration with our local markets, and ensuring that we maximise the value of our spend to local communities.

The boards of each of our Material Subsidiaries consider updates on corporate responsibility activities and spend in their communities on an annual basis.

### Code of Business Conduct

Consideration of environmental, social and community matters is integrated in our Code of Business Conduct. Our code is reviewed by the Board on an annual basis. Refer to page 76 for more information.

### Risk assessment

For more information on the risks facing our business see our Report on the risks facing our business and how these are managed on page 48. Further information on how we manage our material ESG issues and associated risks are provided in the 'Managing our material ESG issues' section of the Corporate responsibility review on page 64.

### Supply chain management

It is our policy to work in partnership with third parties whose values and standards are aligned with our Group Code of Business Conduct, aligned with the methods and practices of the Chartered Institute of Purchasing and Supply, an industry-recognised body.

Further information on our supply chain management and performance will be provided in our forthcoming 2017 ESG Report.

### Strategic report approval by the Board of Directors

The strategic report set out on pages 9 to 80 is approved by the Board of Directors.

Signed on behalf of the Board of Directors



**Mike Wells**  
Group Chief Executive  
14 March 2018



# 03

## Governance

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# Robust and transparent governance supporting the delivery of our strategy

## Dear Shareholder

**This report provides an explanation of the Group's governance arrangements and our activities in this area during 2017.**

Good governance encourages decisions to be made in the best interests of the business, taking account of the views of stakeholders. We aim to achieve this through a responsive governance framework that supports and challenges our executives' decision making.

## Effective leadership

As Chairman, one of my priorities is how we as a Board can improve and work together even more effectively. The Board undertakes an annual review of its performance, both collectively and as individuals and uses the outcomes of these reviews to drive improvements over the coming year. The actions taken by the Board in 2017 to address the recommendations of the 2016 review are set out on pages 93 and 94. An external independent evaluation was conducted at the end of 2017 in order to provide shareholders with further comfort that the Board continues to operate effectively. Details of the 2017 review can be found on page 94 and I was pleased that the review concluded that the Board's strengths included "strong leadership in a collegiate and constructive environment", "effective use of time and materials", and "strong risk and control oversight".

2017 has seen a refresh of the Board in both Non-executive and Executive roles. The changes to the Board have highlighted the strength of our succession planning activities which have allowed us to successfully navigate a number of changes without disruption. This planning has enabled us to recruit very high calibre candidates to the Board, with diverse skills and expertise. Succession planning has therefore been a particular area of focus during the year and we continue to keep this under active review. The activities of the Nomination & Governance Committee in this respect are set out on pages 101 to 104 and all changes to the Board are set out on page 83 of this report. I would like to express my thanks once again for the contributions made by Ann Godbehere, Penny James and Tony Wilkey during their tenures and to welcome Mark FitzPatrick, James Turner and Tom Watjen to the Board.

## Risk and internal controls

Fundamental to demonstrating good governance and stewardship is having in place processes to allow the Board to make a robust assessment of the risks facing our business and those internal controls used to mitigate them. Details of our approach to internal controls and risk management are set out on pages 99 to 100. The Audit Committee report on pages 105 to 114 describes how the Committee monitors the effectiveness of the internal control and risk management systems and the Risk Committee report on pages 115 to 119 sets out how that Committee has considered the Group's risk appetite.

## Culture

I continue to believe that tone is set from the top and the Board and senior management must therefore exhibit the behaviours expected throughout the Group. Individual businesses are also shaping culture locally, contributing to our shared values. Under my stewardship, our international volunteering programme, Chairman's Challenge, has grown significantly and over 8,000 colleagues offered their time and skills to supporting the community in 2017.

The Board has set itself an objective for the Group to develop a framework for a measurable, definable culture. As part of this, a risk culture survey was developed by the Risk Committee covering all businesses. The Board will continue to build on this in 2018, bringing together the many strands of initiatives around the Group.

In December, the Board approved an updated Group Code of Conduct which introduced standards of business conduct. This clarifies expectations over employee behaviour and seeks to ensure employees understand the individual obligations that the Group imposes on them through our policies, including financial crime prevention, conflicts of interest, information security and securities dealing, public communications and social media, people related policies and confidential reporting.

## Strategic projects

In 2017, the Board considered a number of strategic projects. Most notably, we announced in August 2017 our intention to merge our UK asset manager, M&G, and our UK life insurance business to form M&G Prudential. The combined business manages over £330 billion in assets for more than six million customers. Further details of the merger are set out in the Strategic report on pages 10 to 80. From a governance perspective, the Board and Audit Committee spent significant time considering the benefits of the transaction

for shareholders and customers and the impact on our wider stakeholders.

During the year we also announced the sale of our broker-dealer network in the US, which was owned by our subsidiary National Planning Holdings Inc. and consisted of INVEST Financial Corporation, Investment Centres of America, Inc, National Planning Corporation and SII Investments, Inc., to LPL Financial LLC. This allows us to focus on our primary strategy in North America of being the leading manufacturer of retirement products.

## Looking after our stakeholders

The Board continues to be aware of the impact of its decisions on all of our stakeholders. Feedback we receive from engaging with stakeholders helps us to devise and manage policies and processes.

In 2017, the Group published its first environmental, social and governance (ESG) report which gave a detailed account of our approach to ESG matters. That report explains that while serving our customers is at the centre of our business, we approach other stakeholders with the same sense of responsibility and commitment, from our suppliers and employees to the wider communities in which we operate. We expect to publish our next ESG report in May 2018.

## Looking forward

On the governance front, of key interest will be the changes proposed to the UK Corporate Governance Code, which are set to include a range of new requirements for both behaviour and reporting. Once in place, the Board and its Committees will consider how any changes will affect the way we work.

On a regulatory level, the impact of International Financial Reporting Standard 17 (IFRS 17) on the Group will be further assessed following work already undertaken by the Board and Audit Committee.

I hope that this report and the reports of my fellow Committee Chairs will demonstrate to you the work we have undertaken over the course of the year as well as the tangible and positive impact this has had on our business.



**Paul Manduca**  
Chairman

# Board of Directors

## Key to Committee membership

- Chair
- Au Audit
- NG Nomination & Governance
- Re Remuneration
- Ri Risk

## Chairman



**Paul Manduca**  
Chairman

**Appointment:** October 2010  
**Age:** 66

### Relevant skills and experience

Paul has held a number of senior leadership roles. Notable appointments include serving as chairman of the Association of Investment Companies (1991 to 1993), acting as founding CEO of Threadneedle Asset Management Limited (1994 to 1999), directorships of Eagle Star and Allied Dunbar, holding the offices of European CEO of Deutsche Asset Management (2002 to 2005), global CEO of Rothschild Asset Management (1999 to 2002), chairman of Bridgewell Group plc and a director of Henderson Smaller Companies Investment Trust plc.

Other previous appointments include the chairmanship of Aon UK Limited and JPM European Smaller Companies Investment Trust Plc. From September 2005 until March 2011, Paul was a non-executive director of Wm Morrison Supermarkets Plc, including as senior independent director, audit committee chairman and remuneration committee chairman. He was also a non-executive director and audit committee chairman of KazMunaiGas Exploration & Production until the end of September 2012.

During 2017, Paul stepped down as chairman and a member of the board of Henderson Diversified Income Limited with effect from 26 April and was appointed to the board of RateSetter (Retail Money Market Limited) with effect from 1 June and as chairman from 17 July.

Paul initially joined the Board in October 2010 as the Senior Independent Director and member of the Audit and Remuneration Committees, roles he held until his appointment as Chairman in July 2012. On becoming Chairman, Paul was also appointed Chair of the Nomination & Governance Committee, having been a member of the Committee since January 2011.

### Other appointments

- Securities Institute
- RateSetter (Retail Money Market Limited) (chairman)
- Templeton Emerging Markets Investment Trust (TEMIT) (chairman)
- TheCityUK advisory council

## Chief Executive



**Michael Wells**  
Group Chief Executive

**Appointment:** January 2011  
**Age:** 57

### Relevant skills and experience

Mike has more than three decades' experience in insurance and retirement services, having started his career at the US brokerage house Dean Witter, before going on to become a managing director at Smith Barney Shearson.

Mike joined the Prudential Group in 1995 and became Chief Operating Officer and Vice-Chairman of Jackson in 2003. In 2011, he was appointed President and Chief Executive Officer of Jackson, and joined the Board of Prudential.

During his leadership of Jackson, Mike was responsible for the development of Jackson's market-leading range of retirement solutions. He was also part of the Jackson teams that purchased and successfully integrated a savings institute and two life companies.

Mike joined the Board in 2011 and was appointed Group Chief Executive in June 2015.

### Board changes

#### Non-executive Directors

Ann Godbehere retired from the Board at the conclusion of the Annual General Meeting held on 18 May 2017.

David Law succeeded Ms Godbehere as Chair of the Audit Committee and became a member of the Risk Committee and the Nomination & Governance Committee with effect from 19 May 2017. Lord Turner was appointed a member of the Audit Committee with effect from 19 May 2017.

Tom Watjen was appointed to the Board and as a member of the Remuneration Committee with effect from 11 July 2017.

Post year end, Alice Schroeder was appointed a member of the Risk Committee with effect from 1 March 2018.

#### Executive Directors

Tony Wilkey stepped down as a member of the Board and as Chief Executive of Prudential Corporation Asia and Nic Nicandrou succeeded him in this position. Mark FitzPatrick was appointed to the Board to succeed Mr Nicandrou as Chief Financial Officer. The effective date for these changes was 17 July 2017.

In August 2017, the Company announced its intention to merge its asset manager, M&G, and Prudential UK & Europe to form

M&G Prudential. John Foley became Chief Executive of M&G Prudential and Anne Richards became Deputy Chief Executive of M&G Prudential (retaining her role as Chief Executive of M&G).

Penny James stepped down from the Board and as Chief Risk Officer with effect from 30 September 2017. James Turner was appointed as an Executive Director and as Group Chief Risk Officer with effect from 1 March 2018. Pat Casey held the role of Group Chief Risk Officer on an interim basis until 1 March 2018.

## Board of Directors continued

### Executive Directors



**Mark FitzPatrick c.a.**

Chief Financial Officer

**Appointment:** July 2017

**Age:** 49

**Relevant skills and experience**

Mark previously worked at Deloitte for 26 years, building his industry focus on insurance and investment management globally. During this time, Mark was Managing Partner for Clients and Markets, a member of the executive committee and a member of the board of Deloitte UK. He was a vice chairman of Deloitte for four years, leading the CFO Programme and developing the CFO Transition labs. Mark previously led the Insurance & Investment Management audit practice and the insurance industry practice.

Mark joined the Board as an Executive Director and Chief Financial Officer in July 2017.



**John Foley**

Chief Executive of M&G Prudential

**Appointment:** January 2016

**Age:** 61

**Relevant skills and experience**

John spent over 20 years at Hill Samuel & Co, where he worked in every division of the bank, culminating in senior roles in risk, capital markets and treasury of the combined TSB and Hill Samuel Bank. Before joining Prudential, John spent three years as general manager, global capital markets at National Australia Bank.

John joined Prudential as Deputy Group Treasurer in 2000 and became Managing Director of Prudential Capital and Group Treasurer in 2001. During his career at Prudential, John has held the offices of Chief

Executive of Prudential Capital, Group Chief Risk Officer, Group Investment Director and Chief Executive of Prudential UK & Europe.

John first joined the Board in 2011 as Group Chief Risk Officer and was reappointed in January 2016, having stepped down during his time as Group Investment Director.

In 2017, John's role was expanded from Chief Executive of Prudential UK & Europe to Chief Executive of M&G Prudential, the Group's combined UK asset management and savings and retirement solutions business.



**Nicolaos Nicandrou ACA**

Chief Executive of Prudential Corporation Asia

**Appointment:** October 2009

**Age:** 52

**Relevant skills and experience**

Nic started his career at PricewaterhouseCoopers (PwC). Before joining Prudential, he worked at Aviva, where he held a number of senior finance roles, including Norwich Union Life finance director and board member, Aviva group financial control director, Aviva group financial management and reporting director and CGNU group financial reporting director.

In July 2017, Nic became Chief Executive of Prudential Corporation Asia having originally joined the Board in October 2009 as an Executive Director and Chief Financial Officer.

**Other appointments**

- European Insurance CFO Forum (chairman)
- CITIC-Prudential Life Insurance Company Limited (a Prudential plc joint venture)

**Key to Committee membership**

- Chair
- Au Audit
- NG Nomination & Governance
- Re Remuneration
- Ri Risk

**Anne Richards**

Deputy Chief Executive of M&G Prudential and Chief Executive of M&G

**Appointment:** June 2016

**Age:** 53

**Relevant skills and experience**

Anne became an analyst for Alliance Capital in 1992 and then moved into portfolio management roles at JP Morgan Investment Management and Mercury Asset Management. She joined the board of Edinburgh Fund Managers plc as chief investment officer and joint managing director in 2002 and continued in this role following Aberdeen Asset Management PLC's acquisition of Edinburgh Fund Managers in 2003. Anne was chief investment officer and head of the EMEA region for Aberdeen Asset Management PLC, positions she held until February 2016.

Anne joined the Board in 2016 as an Executive Director and Chief Executive of M&G. She became Deputy Chief Executive of M&G Prudential in 2017 whilst remaining Chief Executive of M&G.

**Other appointments**

- Financial Services advisory board
- CFA UK Advisory
- Financial Conduct Authority practitioner panel (chair)
- Standing Council on Europe
- IBDE advisory board

**Barry Stowe**

Chairman and Chief Executive Officer of the North American Business Unit

**Appointment:** November 2006

**Age:** 60

**Relevant skills and experience**

Before joining Prudential, Barry was president, accident & health worldwide for AIG Life Companies. He joined AIG in 1995 after having held senior positions at Pan-American Life and Willis in the United States.

Barry joined the Board in 2006 as an Executive Director and the Chief Executive of Prudential Corporation Asia, leading Prudential's Asian business through a period of major growth and development.

Barry fulfilled this role until June 2015 when he became Chairman and Chief Executive of the North American Business Unit.

**Other appointments**

- International Insurance Society
- American Council of Life Insurers

**Executive Director appointment post year end****James Turner FCA**

Group Chief Risk Officer

**Appointment:** March 2018

**Age:** 48

**Relevant skills and experience**

James led internal audit teams in UBS in both the UK and Switzerland. Prior to joining Prudential, James was the deputy head of compliance for Barclays plc. He also held a number of senior internal audit roles across the Barclays group, leading teams that covered the UK, the US, Western Europe, Africa and Asia retail and commercial banking activities.

James joined Prudential in November 2010 as the Director of Group-wide Internal Audit and

was appointed Director of Group Finance in September 2015, with responsibility for delivery of the Group's internal and external financial reporting, business planning, performance monitoring and capital and liquidity planning. He also led the development of the Group's Solvency II internal model.

James joined the Board as an Executive Director and Group Chief Risk Officer in March 2018.

**Other appointments**

- West Bromwich Building Society

## Board of Directors continued

### Non-executive Directors



**The Hon. Philip Remnant CBE FCA**  
Senior Independent Director

**Appointment:** January 2013  
**Age:** 63

#### Relevant skills and experience

Philip was a senior advisor at Credit Suisse and a vice chairman of Credit Suisse First Boston (CSFB) Europe and head of the UK Investment Banking Department. He was twice seconded to the role of director general of the Takeover Panel. Philip also served on the board of Northern Rock plc and as chairman of the Shareholder Executive.

Philip joined the Board in January 2013 as a Non-executive Director, as Senior Independent Director and as a member of each of the Audit Committee, the Remuneration Committee and the Nomination & Governance Committee.

#### Other appointments

- City of London Investment Trust (chairman)
- M&G Group Limited (Prudential plc subsidiary) (chairman)
- Severn Trent plc
- Takeover Panel
- UK Financial Investments Limited



**Sir Howard Davies**

**Appointment:** October 2010  
**Age:** 67

#### Relevant skills and experience

Sir Howard has a wealth of experience in the financial services industry, across the Civil Service, consultancy, asset management, regulatory and academia. Sir Howard was previously chairman of the Phoenix Group and an independent director of Morgan Stanley Inc.

Sir Howard joined the Board in October 2010 as a Non-executive Director and Chair of the Risk Committee. He joined the Audit Committee in November 2010 and the Nomination & Governance Committee in July 2012.

#### Other appointments

- China Banking Regulatory Commission international advisory board
- China Securities Regulatory Commission international advisory board (chairman)
- Institut d'Études Politiques (Sciences Po)
- Millennium LLC regulatory advisory board
- Royal Bank of Scotland (chairman)



**David Law ACA**

**Appointment:** September 2015  
**Age:** 57

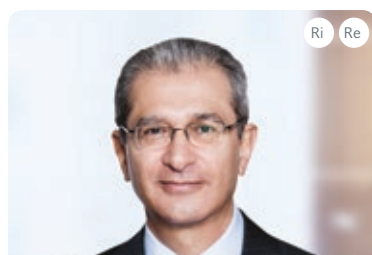
#### Relevant skills and experience

David was the Global Leader of PricewaterhouseCoopers (PwC) insurance practice, a partner in PwC's UK firm, and worked as the lead audit partner for multi-national insurance companies until his retirement in 2015. David has also been responsible for PwC's insurance and investment management assurance practice in London and the firm's Scottish assurance division.

David joined the Board in September 2015 as a Non-executive Director and member of the Audit Committee. David was appointed Chair of the Audit Committee and a member of the Risk Committee and of the Nomination & Governance Committee in May 2017.

#### Other appointments

- L&F Holdings Limited (CEO) and its subsidiaries (the professional indemnity captive insurance group that serves the PwC network and its member firms)



**Kaikhushru Nargolwala FCA**

**Appointment:** January 2012  
**Age:** 67

#### Relevant skills and experience

Kai spent 19 years at Bank of America and was based in Hong Kong in roles as group executive vice president and head of the Asia Wholesale Banking Group during 1990 to 1995. He spent 10 years working for Standard Chartered PLC in Singapore as group executive director responsible for Asia Governance and Risk during 1998 to 2007. Kai was chief executive officer of the Asia Pacific Region of Credit Suisse AG during 2008 to 2010 and now serves as director and chairman of their remuneration committee.

Kai has served on a number of other boards, including Singapore Telecommunications and Tate and Lyle plc.

Kai joined the Board in January 2012 as a Non-executive Director and member of the Remuneration and Risk Committees.

#### Other appointments

- Clifford Capital Pte. Ltd (chair)
- Credit Suisse Group AG
- Duke-NUS Medical School (chairman)
- Prudential Corporation Asia Limited (Prudential plc subsidiary) (chairman)
- PSA International Pte Ltd



**Key to Committee membership**

- Chair
- Re Remuneration
- Au Audit
- Ri Risk
- NG Nomination & Governance

**Anthony Nightingale** CMG SBS JP

**Appointment:** June 2013  
**Age:** 70

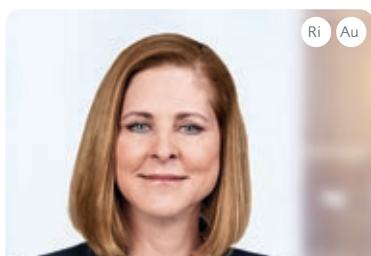
**Relevant skills and experience**

Anthony spent his career in Asia, where he joined the Jardine Matheson Group in 1969, holding a number of senior positions before joining the board of Jardine Matheson Holdings in 1994. He was managing director of the Jardine Matheson Group from 2006 to 2012.

Anthony joined the Board in June 2013 as a Non-executive Director and member of the Remuneration Committee. He became Chair of the Remuneration Committee and a member of the Nomination & Governance Committee in May 2015.

**Other appointments**

- Jardine Matheson Holdings (and other Jardine Matheson group companies)
- Schindler Holding Limited
- Shui On Land Limited
- The Hong Kong-APEC trade policy study group (chairman)
- UK-ASEAN Business Council
- Vitasoy International Holdings Limited

**Alice Schroeder**

**Appointment:** June 2013  
**Age:** 61

**Relevant skills and experience**

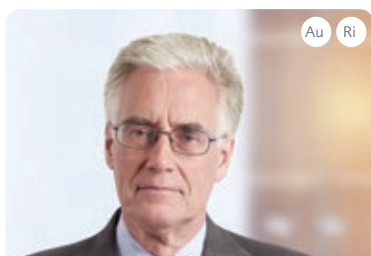
Alice began her career as a qualified accountant at Ernst & Young. She joined the Financial Accounting Standards Board as a manager in 1991, overseeing the issuance of several significant insurance accounting standards.

From 1993, she led teams of analysts specialising in property-casualty insurance as a managing director at CIBS Oppenheimer, PaineWebber (now UBS) and Morgan Stanley. Alice was also an independent board member of the Cetera Financial Group.

Alice joined the Board in June 2013 as a Non-executive Director and member of the Audit Committee. She became a member of the Risk Committee in March 2018.

**Other appointments**

- Bank of America Merrill Lynch International
- Showfer Media LLC (formerly WebTuner Corp) (chair)

**Lord Turner** FRS

**Appointment:** September 2015  
**Age:** 62

**Relevant skills and experience**

Lord Turner began his career with McKinsey & Co, advising companies across a range of industries.

He served as director-general of the Confederation of British Industry, vice-chairman of Merrill Lynch Europe, chairman of the Pensions Commission and as a non-executive director of Standard Chartered Bank.

Lord Turner was chairman of the UK's Financial Services Authority, a member of the international Financial Stability Board and a non-executive director of the Bank of England.

Lord Turner joined the Board in September 2015 as a Non-executive Director and member of the Risk Committee. He became a member of the Audit Committee in May 2017.

**Other appointments**

- Chubb Europe (chairman)
- Energy Transition Commission (chairman)
- House of Lords crossbench member (from 2005)
- Institute for New Economic Thinking (chairman)
- London School of Economics and Cass Business School (visiting professor)
- OakNorth Bank (advisor)

**Thomas Watjen**

**Appointment:** July 2017  
**Age:** 63

**Relevant skills and experience**

Tom started his career at Aetna Life and Casualty before joining Conning & Company, an investment and asset management provider, where he became partner in the capital markets and venture capital division.

He joined Morgan Stanley in 1987 as a managing director in its insurance practice and in 1994, was appointed executive vice president and chief financial officer of Provident Companies Inc.

A key architect of Provident's merger with Unum in 1999, Tom was appointed president and chief executive officer of the renamed Unum Group in 2003, a role he held for 12 years before becoming non-executive chairman until his retirement in May 2017.

Tom joined the Board in July 2017 as a Non-executive Director and member of the Remuneration Committee.

**Other appointments**

- SunTrust Banks, Inc

# How we operate

## Corporate governance codes – statement of compliance

The Company has dual primary listings in London (premium listing) and Hong Kong and has therefore adopted a governance structure based on the UK and Hong Kong Corporate Governance Codes.

The Board confirms that, for the year under review, the Company has complied with all the principles and provisions of those Codes other than the provision of the Hong Kong Corporate Governance Code set out below.

A narrative description of how the Company has complied is set out in the following pages and in the Directors' remuneration report.

The Company does not comply with provision B.1.2(d) of the Hong Kong Corporate Governance Code which requires companies, on a comply or explain basis, to have a remuneration committee which makes recommendations to a main board on the remuneration of non-executive directors. This provision is not compatible with supporting provision D.2.3 of the UK Corporate Governance Code which recommends that the board determines the remuneration of non-executive directors. Prudential has chosen to adopt a practice in line with the recommendations of the UK Corporate Governance Code.

The Executive Directors are the senior management population for the purposes of the Hong Kong Listing Rules.

*The UK Corporate Governance Code is available from: [www.frc.org.uk](http://www.frc.org.uk)*

*The HK Corporate Governance Code is available from: [www.hkex.com.hk](http://www.hkex.com.hk)*

## How the Board leads the Group

The Group is headed by a Board which the Chairman is responsible for leading. The Board is currently made up of 16 Directors, of which a majority, excluding the Chairman, are independent Non-executive Directors. Biographical details of each of the Directors can be found on pages 83 to 87 and further details of the roles of the Chairman, Group Chief Executive, Senior Independent Director, Committee Chairs and the Non-executive Directors can be found on pages 89 and 90.

The Board is collectively responsible to shareholders for the success of the business through:

- The delivery of sustainable value to shareholders;
- Setting the Group's strategy and overall risk appetite;
- Providing leadership within a framework of effective controls; and
- Monitoring management's performance against strategic goals and ensuring sufficient resources are in place to achieve these goals.

Specific matters are reserved for decision by the Board, including:

- Determination of dividends;
- Approval of strategic projects;
- Approval of the three-year business and financial plan;
- Approval of key financial reporting including the Group's full and half yearly Report and Accounts; and
- Responsibility for the system of internal control and risk management.

In making decisions, the Board has regard to the balance of interests between all relevant stakeholders, including shareholders, employees, customers, regulators and the community.

## Our governance framework

The Group has established a governance framework for the business which is designed to promote appropriate behaviours across the Group.

The governance framework outlines the key mechanisms through which the Group sets strategy, plans its objectives, monitors performance, considers risk management, holds business units to account for delivering on business plans and arranges governance. The Group Governance Manual (the Manual) sets out the policies and procedures by which the Group operates within this framework, taking into account relevant statutory, regulatory and governance matters.

Business units manage and report compliance with Group-wide mandatory requirements set out in the Manual through their Governance, Risk Management and Internal Control – Annual Statement of Compliance attestations. This includes compliance with our risk management framework, details of which are set out on pages 99 and 100 of this report.

The content of the Manual is reviewed regularly with significant changes reported to the relevant Board Committee, reflecting the developing nature of both the Group and the markets in which it operates.

## Material Subsidiary governance

### Material Subsidiaries

Jackson National Life Insurance Company

M&G Group Limited

Prudential Corporation Asia Limited

The Prudential Assurance Company Limited

Prudential has appointed independent non-executive directors to the boards of its four Material Subsidiary entities within the Group. Each Material Subsidiary has a board of directors led by an independent chair and an audit committee and risk committee, composed entirely of independent non-executives.

Dialogue between the Group Chair, Group Risk Committee Chair and Group Audit Committee Chair and their counterparts in the Material Subsidiaries provides an effective information flow.

An externally facilitated evaluation of each Material Subsidiary board and their audit and risk committees was carried out by Lintstock Limited, a corporate advisory firm, which concluded that each of those boards and committees operated effectively during the year.

The Nomination & Governance Committee is responsible for oversight of governance arrangements for the Material Subsidiaries. The activities of the Nomination & Governance Committee during 2017 is set out on pages 101 to 104.

## Regulatory environment

The Group's business means it is subject to regulatory requirements and oversight. The Group's primary regulator is the Prudential Regulatory Authority (PRA). We are also regulated by the Financial Conduct Authority in the UK and by other regulators worldwide.

Interactions with our regulators shape our governance framework and the Chairman and Group Chief Executive play a leading role in representing the Group to regulators and ensuring our dialogue with them is constructive.

## Independent scrutiny of corporate social responsibility actions

As part of the Group's focus on corporate responsibility, the Chairman has instructed the boards of our Material Subsidiaries to consider updates on corporate responsibility activities and spend in their communities on an annual basis.

This initiative has added a layer of independent scrutiny and helped to ensure that those boards are close to the community and charitable activities of their business units.



### Board roles and governance

#### Chairman – Paul Manduca

*The Chairman is responsible for the leadership and governance of the Board, ensuring its smooth and effective running in discharging its responsibilities to the Group's stakeholders and managing Board business.*

#### Managing Board business

- Responsible for setting the Board agenda, ensuring the right issues are brought to the Board's attention through collaboration with the Group Chief Executive and the Group General Counsel and Company Secretary
- Facilitating open, honest and constructive debate among Directors. When chairing meetings, ensuring there is sufficient time to consider all topics, all views are heard and all Board members, and in particular Non-executive Directors, have an opportunity to constructively challenge management
- Meeting with Non-executive Directors throughout the year. In 2017, the Chairman met with Non-executive Directors without Executive Directors being present on three occasions
- Ensuring information brought to the Board is accurate, clear, timely and contains sufficient analysis appropriate to the scale and nature of the decisions to be made
- Promoting effective reporting of Board Committee business at Board meetings through regular Committee Chair updates

#### Membership and composition of the Board

- Leading the Nomination & Governance Committee in succession planning and the identification of potential candidates, having regard to the skills and experience the Board needs to fulfil its strategy, and making recommendations to the Board
- Considering the development needs of the Directors so that Directors continually update their skills and knowledge required to fulfil their duties, including the provision of a comprehensive induction for new Directors
- Maintaining an effective dialogue with the Non-executive Directors to encourage engagement and maximise their contributions

#### Governance

- Leading the Board's determination of appropriate corporate governance and business values, including ethos, values and culture at Board level and throughout the Group
- Working with the Group General Counsel and Company Secretary to ensure continued good governance
- Acting as key contact for independent chairs of Material Subsidiaries
- Meeting with the independent chairs of the Group's Material Subsidiaries on a regular basis and reporting to the Board on the outcome of those meetings

#### Relationship with the Group Chief Executive

- Discussing broad strategic plans with the Group Chief Executive prior to submission to the Board
- Ensuring the Board is aware of the necessary resources to achieve the strategic plan
- Providing support and advice to the Group Chief Executive

#### Representing the Group externally to shareholders and other stakeholders

- Representing the Board externally at business, political and community level. Presenting the Group's views and positions as determined by the Board
- Playing a major role in the Group's engagement with regulators
- Balancing the interests of different categories of stakeholders, preserving an independent view and ensuring effective communication
- Engaging in a programme of meetings with key shareholders throughout the year and reporting to the Board on the issues raised at those meetings

## How we operate continued

### Group Chief Executive – Mike Wells

The Group Chief Executive leads the Executive Directors and senior executives and is responsible for the operational management of the Group on behalf of the Board on a day-to-day basis:

- Responsible for the implementation of Board decisions
- Establishes processes to ensure operations are compliant with regulatory requirements
- Sets policies, provides day-to-day leadership and makes decisions on matters affecting the operation, performance and strategy of the Group, seeking Board approval for matters reserved to the Board
- Supported by the Group Executive Committee (GEC) which he chairs and which receives reports on performance and implementation of strategy for each business unit and discusses major projects and other activities related to the attainment of strategy
- Chairs the Chief Executive's Committee (CEC) meetings which are held weekly to review matters requiring approval under the Group's framework of delegated authorities
- Keeps in regular contact with the Chairman and briefs him on key issues
- Meets with key regulators worldwide

### Senior Independent Director – Philip Remnant

The Senior Independent Director acts as an alternative conduit to the Board for shareholder concerns and leads the evaluation of the Chairman:

- Keeps in close contact with the Chairman and acts as sounding board for him
- Leads the Non-executive Directors in conducting the Chairman's annual evaluation
- Holds meetings with Non-executive Directors without management being present, typically at least once a year to evaluate the performance of the Chairman
- Offers meetings to major shareholders to provide them with an additional communication point on request and is generally available to any shareholder to address concerns not resolved through normal channels

### Committee Chairs

Each of the Committee Chairs is responsible for the effective operation of their respective Committees:

- Responsible for the leadership and governance of their Committee
- Sets the agenda for Committee meetings
- Reports to the Board on the activities of each Committee meeting and the business considered, including, where appropriate, seeking Board approval for actions in accordance with the Committees' terms of reference
- Works with the Group General Counsel and Company Secretary to ensure the continued good governance of each Committee during the year
- The Chairs of the Audit and Risk Committees act as key contact points for the independent chairs of the audit and risk committees of the Material Subsidiaries

### Non-executive Directors

All of the Non-executive Directors are deemed to be independent and together have a wide range of experience used to attain the strategic aims of the Group through:

- Constructive and effective challenge
- Scrutinising the performance of management in meeting agreed goals and objectives
- Serving on at least one of the Board's principal Committees
- Engaging with Executive Directors and management at Board and Committee meetings as well as at site visits, training sessions and on an informal basis
- Taking part in one-to-one meetings with the Group Strategy team and participation in the annual Strategy Away Day

The Board has established four principal Committees whose functions are summarised below.

<b>Board</b>			
<p><b>Nomination &amp; Governance Committee</b></p> <p><b>Chair</b> <b>Paul Manduca</b></p> <ul style="list-style-type: none"> <li>— Responsible for reviewing, maintaining and enhancing the balance of skills and experience on the Board in support of the Group's strategic objectives</li> <li>— Maintains an effective framework for senior succession planning including at Board level</li> <li>— Recommends appointments to the Board and its principal Committees and appointments of non-executive chairs to the boards of the Material Subsidiaries</li> <li>— Oversees the governance of Material Subsidiaries and the Group's overall governance framework</li> </ul> <p> See Nomination &amp; Governance Committee report on pages 101 to 104</p>	<p><b>Audit Committee</b></p> <p><b>Chair</b> <b>David Law</b></p> <ul style="list-style-type: none"> <li>— Responsible for the integrity of the Group's financial reporting, including scrutinising accounting policies</li> <li>— Monitors the effectiveness of internal control and risk management systems, including compliance arrangements</li> <li>— Monitors the effectiveness and objectivity of internal and external auditors</li> <li>— Approves the internal audit plan and recommends the appointment of the external auditor</li> </ul> <p> See Audit Committee report on pages 105 to 114</p>	<p><b>Risk Committee</b></p> <p><b>Chair</b> <b>Howard Davies</b></p> <ul style="list-style-type: none"> <li>— Leads on and oversees the Group's overall risk appetite, risk tolerance and strategy</li> <li>— Approves the Group's risk management framework and monitors its effectiveness</li> <li>— Supports the Board and management in embedding and maintaining a supportive culture in relation to the management of risk</li> <li>— Provides advice to the Remuneration Committee on risk management considerations to inform remuneration decisions</li> </ul> <p> See Risk Committee report on pages 115 to 119</p>	<p><b>Remuneration Committee</b></p> <p><b>Chair</b> <b>Anthony Nightingale</b></p> <ul style="list-style-type: none"> <li>— Recommends the Directors' Remuneration Policy for approval by shareholders</li> <li>— Approves individual remuneration packages of the Chairman, the Executive Directors, other senior executives and the non-executive directors of Material Subsidiaries</li> <li>— Determines the overall Remuneration Policy for the Group</li> <li>— Reviews the design and development of share plans and approves and assesses performance targets where applicable</li> </ul> <p> See Remuneration Committee report on pages 124 to 157</p>

Terms of reference for the principal Committees can be accessed at [www.prudential.co.uk/investors/governance-and-policies/board-committees-terms-of-reference](http://www.prudential.co.uk/investors/governance-and-policies/board-committees-terms-of-reference)

# How we operate continued

## Key areas of focus – how the Board spent its time

The Board held 10 meetings during 2017. In addition to those meetings set out in the table below, the Board held a separate three-day strategy event in June. In addition to meetings, the Board receives monthly update reports from management.

	Feb	Mar <sup>1</sup>	May	Jun	Jul	Aug	Sep	Nov	Dec
<b>Strategy and implementation</b>									
Approval and review of strategic priorities	●								
Strategic priorities monitoring			●		●		●		●
Approval of three year operating plan									●
Strategic projects <sup>2</sup>			●		●	●	●	●	●
Tax strategy reporting			●						
Group Chief Executive's report	●		●		●		●	●	●
<b>Report from Committee Chairs</b>									
Audit	●	●	●		●	●		●	●
Nomination & Governance	●			●				●	
Remuneration	●	●		●			●		●
Risk	●		●		●			●	●
<b>Financial reporting and dividends</b>									
Chief Financial Officer's performance report	●		●		●		●	●	●
Full year	●	●							
Half year					●	●			
Group Solvency II reporting	●		●						
<b>Business unit Chief Executive updates</b>									
Prudential Corporation Asia	●		●		●		●	●	●
North American business unit	●		●		●		●	●	●
M&G Prudential <sup>3</sup>	●		●		●		●	●	●
<b>Risk, regulatory and compliance</b>									
Regulatory and compliance updates	●		●		●		●	●	●
Chief Risk Officer's report	●		●		●		●	●	●
Government relations	●		●		●		●	●	●
PRA relations	●	●			●				
<b>Governance and stakeholders</b>									
Governance updates	●		●	●	●		●	●	●
Board evaluation and actions tracking	●						●		●
Succession planning	●			●				●	
Corporate responsibility reporting and ESG		●							●
Diversity and inclusion			●		●				
Talent review									●
Non-executive Directors' fees				●					
Feedback on investor meetings	●							●	●

### Notes

<sup>1</sup> The Board held two meetings in March 2017.

<sup>2</sup> Strategic projects during the year included the merger of our business units M&G and Prudential UK & Europe, and the sale of our broker-dealer network in the USA.

<sup>3</sup> Prior to their merger in August 2017, M&G and Prudential UK & Europe reported to the Board separately.

## Board and Committee meeting attendance throughout 2017

Individual Directors' attendance at meetings throughout the year is set out in the table below.

	Board	Audit Committee	Nomination & Governance Committee	Remuneration Committee	Risk Committee	Joint Audit and Risk Committee	General Meeting
<b>Number of meetings held</b>	10	9	4	6	6	1	1
<b>Chairman</b>							
Paul Manduca	10	–	4	–	–	–	1
<b>Executive Directors</b>							
Mike Wells	10	–	–	–	–	–	1
Mark FitzPatrick <sup>1</sup>	5/5	–	–	–	–	–	–
John Foley	10	–	–	–	–	–	1
Nic Nicandrou	10	–	–	–	–	–	1
Anne Richards	10	–	–	–	–	–	1
Barry Stowe	10	–	–	–	–	–	1
<b>Executive Directors who stepped down during the year</b>							
Tony Wilkey <sup>2</sup>	4/5	–	–	–	–	–	1
Penny James <sup>3</sup>	8/8	–	–	–	–	–	1
<b>Non-executive Directors</b>							
Philip Remnant	10	9	4	6	–	1	1
Howard Davies	10	9	4	–	6	1	1
David Law	10	9	2/2	–	3/3	1	1
Kai Nargolwala	10	–	–	6	6	1	1
Anthony Nightingale	10	–	4	6	–	–	1
Alice Schroeder	10	9	–	–	–	1	1
Lord Turner	10	5/5	–	–	6	1	1
Tom Watjen <sup>4</sup>	5/5	–	–	2/2	–	–	–
<b>Non-executive Director who stepped down during the year</b>							
Ann Godbehere <sup>5</sup>	4/4	4/4	2/2	–	3/3	1	1

### Notes

- 1 Mark FitzPatrick joined the Board with effect from 17 July 2017.
- 2 Tony Wilkey stepped down from the Board with effect from 17 July 2017.
- 3 Penny James stepped down from the Board with effect from 30 September 2017.
- 4 Tom Watjen joined the Board with effect from 11 July 2017.
- 5 Ann Godbehere retired from the Board with effect from 18 May 2017.

Full details of changes to the Board during the year can be found on page 83.

Board and Committee papers are usually provided one week in advance of a meeting. Where a Director is unable to attend a meeting, his or her views are canvassed in advance by the Chairman of that meeting where possible.

### Board effectiveness

#### Actions during 2017

During the year, the action points that had been identified in the 2016 evaluation were addressed and the Board received an update on progress against those actions in September 2017 and February 2018.

**Subsidiary governance** – the 2016 review identified that ensuring good subsidiary governance was maintained was a continuing priority from 2015.

- Group Secretariat continued to monitor and support the regular interactions between the Chairman, Audit Committee Chair and Risk Committee Chair with their Material Subsidiary counterparts;
- Reports of all material issues at subsidiary level were given to the Board

and to the Audit and Risk Committees as regular agenda items;

- Subsidiary independent non-executive directors and chairs, along with all Prudential Non-executive Directors, were invited to a meeting at which the Executive team gave presentations on each business unit with a question and answer session. The sessions also provided the opportunity for the Prudential Board and subsidiary boards to spend time together in an informal setting; and
- Group Secretariat continued its established quarterly 'round table' sessions with subsidiary counterparts to share governance best practices.

**Board agenda** – the 2016 review noted that time spent at meetings should flex

to reflect strategic priorities, with an increased focus on products and customers.

- Agendas continued to be reviewed by the Chairman, Group Chief Executive and the Group General Counsel and Company Secretary, as well as other senior executives where appropriate;
- The Board specifically debated at its July 2017 meeting, as part of a wider discussion on good governance, whether sufficient time was allowed for discussion and debate and concluded positively; and
- The aspiration to create an information pack on products and markets for Board background information was developed into an app, which was trialled to the GEC in the first quarter of 2018.

**Senior employee focus** – the 2016 review noted the focus on rebuilding strength in senior management teams around the Group, following a number of successful internal promotions.

- The Board met all members of the Prudential Corporation Asia executive committee as well as a number of senior Prudential Corporation Asia executives at its Jakarta sessions in April 2017. All members of the Prudential Indonesia executive committee also presented to the Board on this occasion;
- The Board held a two-day session in Craigforth in September 2017 at which the M&G Prudential executive committee and senior executives gave business and strategy updates, including on the merger of the M&G and Prudential UK & Europe businesses;
- The Board received reports from all business units at its meetings on key joiners and leavers; and
- A number of senior executives below GEC level presented to each of the Audit Committee and Risk Committee on a regular basis during the year.

**Remuneration** – the 2016 review noted the growing complexity of remuneration across all UK-listed companies and, over the course of 2017, the Board noted the increased governance focus in this area.

- A training session on remuneration was established for those Non-executive Directors who do not serve on the Remuneration Committee, to discuss the Directors' Remuneration Policy and broader market practice information. This took place in May 2017 and further sessions will be delivered on an as-required basis; and
- A specific and detailed induction was arranged for Mr Watjen on his appointment, given his role as a member of the Remuneration Committee.

## 2017 review and actions for 2018

The Board undertook an external evaluation of its performance and that of its Committees in 2017. The review was facilitated by Boardroom Review Limited, a consultancy which undertakes no other business for the Company. The external nature of the review met the provision of the UK Corporate Governance Code which requires external evaluations on no less than three-yearly intervals.

The evaluation included interviews with all Board members and the Group General Counsel and Company Secretary, and attendance and observation by Dr Tracy Long at a number of Board and Committee meetings. Supporting materials to enhance the assessment team's understanding of how the Board and its Committees operate were provided.

The findings were presented to the Board in December 2017 and a collective Board discussion to exchange ideas and agree priorities arising from the report took place.

The report identified a number of strengths of the Board, including strong leadership from the Chairman and Group Chief Executive; a collegiate and constructive environment; effective use of time; high quality information flow; robust risk and control oversight; appropriate tone through the Remuneration Committee; attention to leadership development and effective shareholder communication.

Through the evaluation and subsequent discussion at the Board meeting in February 2018, the Board identified areas of particular focus and related actions:

<i>Theme</i>	<i>Summary of actions</i>
Creating the right environment for critical decision making	Spend additional time on site visits. Continue to hold Non-executive Director only sessions on an as-required basis
Highlighting culture on the agenda	Provide further reports to the Board on culture in 2018 and mature the Group's strategic objective to 'develop a framework for a measurable, definable culture'
Increasing the Board's resilience	Continue to focus on gender and other diversity in all new Board appointments. Introduce a skills map to monitor experience and expertise more formally

## Director evaluation

The performance during 2017 of the Non-executive Directors and the Group Chief Executive was evaluated by the Chairman in individual meetings. Philip Remnant, the Senior Independent Director, led the Non-executive Directors in a performance evaluation of the Chairman.

Executive Directors are subject to regular review and the Group Chief Executive individually appraised the performance of each of the Executive Directors as part of the annual Group-wide performance evaluation of all staff.

The outcome of these evaluations is reported to the Nomination & Governance Committee in February each year in order to inform the Committee's recommendation that each Board member be put forward for re-election by shareholders.

Executive Director performance is also reviewed by the Remuneration Committee as part of its deliberations on bonus payments.



## Building Directors' knowledge

### Induction – new Directors

On appointment, each new Director is provided with a comprehensive induction, tailored to reflect the experience of the individual and his or her position as a Non-executive or Executive Director.

Our two new Directors, Mr Watjen and Mr FitzPatrick each received a full induction to the business.

A summary of the general topics covered, as well as the role specific topics on which they each received comprehensive briefings, are set out in the table below.

General induction programme relevant to all new Directors		Role-specific induction programme for new Directors	
Understanding our governance	Understanding our business	Mark FitzPatrick	Tom Watjen
<ul style="list-style-type: none"> <li>— Meetings with the Chairman and Group Chief Executive separately</li> <li>— Explanation of the Group's strategy and business plan</li> <li>— Explanation of Prudential's corporate structure, Board and Executive Committee structure</li> <li>— Briefings on Group governance framework and key policies</li> <li>— Training as needed on the rules and governance requirements of the London and Hong Kong Stock Exchanges and on fulfilling the statutory duties of a Director</li> </ul>	<ul style="list-style-type: none"> <li>— Tailored briefings with each business unit to gain a comprehensive understanding of each of their business models, product suites, pricing arrangements and governance structures</li> <li>— Introductory meetings with all Group functions</li> <li>— Comprehensive briefings on the regulatory environment in which the Group operates</li> <li>— Briefings on top risks and internal controls</li> </ul>	<ul style="list-style-type: none"> <li>— Tailored meetings with members of the Group Finance function</li> <li>— Company financial reporting overview on key Group issues including US GAAP differences, IFRS Insurance Performance Management, IFRS contracts and tax</li> <li>— Walkthrough of financial reporting disclosures</li> <li>— Additional tailored support in his first role as Chief Financial Officer of a global financial services operation</li> </ul>	<ul style="list-style-type: none"> <li>— Human Resources-specific induction provided by the Director of Human Resources, including an overview of Group Reward, current UK remuneration hot topics, and the role of the Remuneration Committee and business unit remuneration committees</li> <li>— Meeting with the Chair of the Remuneration Committee to discuss the annual cycle of Committee work, its current focus and focus for 2018 and beyond</li> </ul>

### Induction – role changes

Since Mr Nicandrou was appointed Chief Executive of Prudential Corporation Asia he has continued to deepen his knowledge of the Asia business with a tour of operations across each of the 14 markets in which Prudential Corporation Asia operates. As part of his visits, Mr Nicandrou spent time with senior management, staff and agents of both Prudential Corporation Asia's Life and Eastspring operations. He held a regional conference to provide insights on the strategic direction of the business and to discuss opportunities to broaden distribution, simplify products and services, and the role of digital technology in upgrading the way the business engages and services its customers. He has also engaged extensively with regulators, government officials, existing and prospective partners and hosted a regional investor conference.

Mr Law had been a member of the Audit Committee for almost two years at the time of his appointment as Chair, which provided him with detailed knowledge of its operations and he worked closely with the outgoing Chair to ensure a smooth transition. In addition Mr Law met with the Chief Financial Officer and other members of Group Finance, the Group-wide Internal Audit Director, the Group Regulatory and Government Relations Director and the Director of Group Compliance in preparation for his role as Chair. Mr Law attended one of each of the Material Subsidiary audit committee meetings to gain a better understanding of their operations. He also met with the Group Chief Risk Officer and other members of Group Risk to prepare him for his role as a member of the Risk Committee.

Lord Turner received a detailed briefing from the Director of Group Finance on appointment to the Audit Committee.

A full description of all Board and role changes during 2017 are set out on page 83.



## Board site visits

### Jakarta, Indonesia

All Board members made a site visit to the Group's operations in Jakarta, Indonesia in March 2017. The visit included presentations from the Prudential Corporation Asia executive team on regional financial performance and an overview of the asset management and life businesses across Asia.

This was followed by detailed presentations by the local Indonesian executive team focusing on agency, Sharia strategy, products, operations, compliance and risk management, brand and corporate social responsibility.

The Board also attended an agency 'Greater Together' recognition event at the Kasablanca Hall with more than 4,000 agents and visited an agency training centre and two agency offices in Menara 88 (PruVictory and PruFavor) which gave an opportunity to see the Group's distribution in action.

### Craigforth, Scotland

All Board and GEC members visited the Group's operations in Craigforth, Scotland in September 2017. The visit included presentations from the M&G Prudential executive team, which gave opportunity to demonstrate to the Board the activity that had taken place in merging the M&G and Prudential life businesses.

In addition, focus sessions were held to provide an in-depth understanding of Prudential Savings & Retirement Solutions and M&G. These included sessions on the annuities business, the customer vision and strategy, distribution, investment management, transformation and culture.

As well as formal presentations, the Board visited different parts of the Craigforth site for demonstrations from employees on typical processing systems and technology innovation.

### Continuing development of knowledge and skills

During 2017, the Board and its Committees received a number of technical and business updates as part of their scheduled meetings, providing information on external developments relevant to the Group and on particular products or operations. Below is an overview of how Directors are kept up to date:

- The Board holds an annual strategy session, which allows for detailed updates on each of the business units and deep dives on strategic direction and objectives for the Group;
- The Board receives updates on brand and corporate responsibility activities, usually once a year;
- The Board receives updates at each of its full Board meetings on corporate governance, political and regulatory developments, and the dynamics of equity and currency markets. In 2017, this included updates on the political environment, such as Brexit and tax reform in the USA. The Board also considered MiFID II, the General Data Protection Regulation, the Modern Slavery Act, and the review of the FRC's UK Corporate Governance Code;
- In December 2017, the Group ran a focused cyber training session for members of the Risk and Audit Committees, which was open to all Directors;
- The Board reviews each business unit at least once a year and conducts periodic site visits as part of this. In 2017, the Board met in Jakarta, Indonesia and Craigforth, Scotland. Details of the activities undertaken on these visits are set out above;
- The Board and the Risk Committee receive regular updates on market developments and key risks, including updates on Solvency II and cyber risk. The Risk Committee reviews top risks on an annual basis and deep dives into specific topics in response to the identification of key risks. This review covers the financial, operational and strategic risks, whilst also identifying and addressing business environment and insurance risks within the Group. The identification of such risks inform the risk reporting provided to the Committee and the Board;
- The Audit Committee receives updates on developments affecting financial reporting and the role of audit committees generally. In 2017, this included updates on MiFID II, audit matters for consideration, and financial reporting disclosures as well as forward looking consideration for IFRS 17; and
- The Remuneration Committee receives updates on regulatory and governance developments affecting the Group's remuneration arrangements. In 2017, these included the PRA's guidance on Solvency II remuneration requirements, the Investment Association Principles of Remuneration, BEIS Corporate Governance reform concerning remuneration and gender pay gap reporting.

Further information on the activities of the Board and its Committees can be found in the tables explaining how the Board and its Committees spent their time on pages 92, 102, 107, 117 and 133.

All Directors have the opportunity to discuss their individual development needs as part of the annual Board effectiveness review and Directors are asked to provide a record of training received externally on an annual basis. All Directors have the right to obtain professional advice at Prudential's expense.

## Diversity

Given the global reach of the Group's operations, and our business strategy and long-term focus, the Board makes every effort to ensure it is able to recruit Directors from different backgrounds, with diverse experience, perspective and skills. This diversity not only contributes towards Board effectiveness but is essential for successfully delivering the strategy of an international Group.

This is reflected in our Group Diversity and Inclusion Policy which aims to provide equal opportunities to all who apply for and who perform work for our organisation – including our Directors – irrespective of sex, race, age, ethnic origin, educational, social and cultural background, marital status, pregnancy and maternity, civil partnership status, any gender reassignment, religion or belief, sexual orientation, disability, or part-time/ fixed-term work, and to ensure appropriate diversity of experience, skill sets and professional backgrounds.

The Board is committed to recruiting the best available talent and appointing the most appropriate candidate for each role while at the same time aiming for an appropriate diversity on the Board. The Nomination & Governance Committee takes into account the Group Diversity and Inclusion Policy when considering succession planning. Prudential has a preference for using suppliers recognised for their commitment to diversity. The Board considers that its diversity of experience, skill set and professional background has been increased as a result of Board level succession in 2017.

The Board continues to commit to developing a robust and diverse talent pipeline and to increasing representation of women in senior positions in the Group and on the Board. As part of this commitment the Board may endorse relevant measurable objectives for increasing diversity. For example, in 2016 the Board decided to sign the HM Treasury Women in Finance Charter with an aim to achieve at least 30 per cent of women in senior management by the end of 2021 and in 2017, all Executive Directors volunteered to mentor members from our senior management team of various ages, gender, educational and professional backgrounds. The Group also engaged in a number of targeted activities in support of our Diversity and Inclusion Policy, including awareness training of unconscious bias.

## Shareholder engagement

As a major institutional investor, the Board recognises the importance of maintaining an appropriate level of two-way communication with shareholders.

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is conducted each year by the Group Chief Executive and the Chief Financial Officer, led by the Investor Relations team.

A conference for investors and analysts is held on a regular basis, including in-depth business presentations and opportunities for attendees to meet with members of the Board and senior executives and an opportunity for the executive team to communicate progress and strategy outside of the financial reporting cycle. The most recent event was held in November 2017 and feedback was provided to the Board in December 2017.

The Group Chief Executive, Chief Financial Officer and Investor Relations team also attend major financial services conferences to present to and meet with the Company's shareholders.

In 2017, as part of the investor relations programme, over 320 meetings were held with approximately 700 individual institutional investors in London, continental Europe, the USA and Asia.

The Company holds an ongoing programme of regular contact with major shareholders, conducted by the Chairman, to discuss their views on the Company's governance. The Senior Independent Director offers meetings to major shareholders as needed. Engagement with institutional investors on the Directors' remuneration policy and implementation is led by the Remuneration Committee Chair. Other Non-executive Directors are available to meet with major shareholders on request.

Shareholder feedback and key issues from these meetings is communicated to the Board. Details of when feedback was discussed by the Board in 2017 can be found on page 92.

The Annual General Meeting is an opportunity for further shareholder engagement, for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors then in office attended the 2017 Annual General Meeting.

Details of the 2018 Annual General Meeting are available on [www.prudential.co.uk/investors](http://www.prudential.co.uk/investors)

## Further information on Directors

### Information on a number of regulations and processes relevant to Directors, and how these are addressed by Prudential, is given below.

Area	Prudential's approach
<b>Rules governing appointment and removal</b>	<ul style="list-style-type: none"> <li>— The appointment and removal of Directors is governed by the provisions in the Articles of Association (the Articles), the UK Corporate Governance Code (the UK Code), the Hong Kong Corporate Governance Code (HK Code) as appended to the Hong Kong Listing Rules (the HK Listing Rules) and the Companies Act 2006.</li> </ul>
<b>Terms of appointment</b>	<ul style="list-style-type: none"> <li>— Non-executive Director tenure is shown on page 150.</li> <li>— Non-executive Directors are appointed for an initial term of three years, commencing with their election by shareholders.</li> <li>— Subject to review by the Nomination &amp; Governance Committee and re-election by shareholders, it would be expected that Non-executive Directors serve a second term of three years.</li> <li>— After six years, Non-executive Directors may be appointed for a further year, up to a maximum of three years in total. Reappointment is subject to rigorous review as well as re-election by shareholders.</li> <li>— The Directors' remuneration report sets out the terms of the Non-executive Directors' letters of appointment on page 130 and the terms of Executive Directors' service contracts on page 150.</li> </ul>
<b>Time commitment</b>	<ul style="list-style-type: none"> <li>— At present, the average time commitment expected of a Non-executive Director is 32.5 days per annum. In addition, all Non-executive Directors currently serve on at least one of the Board's principal Committees, which requires an additional commitment of time dependent on the Committee and role.</li> <li>— On appointment, all Non-executive Directors confirm they are able to devote sufficient time to the Group's affairs to meet the demands of the role.</li> <li>— All Non-executive Directors are required to discuss any additional commitments which might impact the time which he or she is able to devote to their role with the Chairman prior to accepting.</li> </ul>
<b>Independence</b>	<ul style="list-style-type: none"> <li>— The independence of the Non-executive Directors is determined by reference to the UK Code and HK Listing Rules as follows: <ul style="list-style-type: none"> <li>– for the purposes of the UK Code, throughout the year, all Non-executive Directors were considered by the Board to be independent in character and judgement and to have met the criteria for independence as set out in the UK Code; and</li> <li>– all the Non-executive Directors were considered independent for the purposes of the HK Listing Rules, and each Non-executive Director provides an annual confirmation of his or her independence as required under the HK Listing Rules.</li> </ul> </li> <li>— In accordance with US regulatory requirements, Prudential affirms annually that all members of the Audit Committee are independent within the meaning of the Sarbanes-Oxley legislation.</li> <li>— Prudential is one of the UK's largest institutional investors. The Board does not believe that this compromises the independence of those Non-executive Directors who are on the boards of companies in which the Group has a shareholding. The Board also believes that such shareholdings should not preclude the Company from having the most appropriate and highest calibre Non-executive Directors.</li> </ul>
<b>Audit Committee experience</b>	<ul style="list-style-type: none"> <li>— In relation to the provisions of the UK Corporate Governance Code and HK Listing Rules, the Board is satisfied that Mr Law has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sectors in which the business operates. Full biographies of the Committee members including experience and professional qualifications, are set out on pages 86 and 87.</li> <li>— The Board has determined that Mr Law qualifies as the Audit Committee financial expert under the requirements of Form 20-F.</li> </ul>
<b>Indemnities</b>	<ul style="list-style-type: none"> <li>— Subject to the provisions of the Companies Act 2006, the Company's Articles permit the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office.</li> <li>— Suitable insurance cover is in place in respect of legal action against directors and senior managers of companies within the Group.</li> <li>— Qualifying third-party indemnity provisions are also available for the benefit of the Directors of the Company and certain other such persons, including certain directors of other companies within the Group.</li> <li>— Qualifying pension scheme indemnity provisions are also in place for the benefit of certain pension trustee directors within the Group.</li> <li>— These indemnities were in force during 2017 and remain so.</li> </ul>
<b>Significant contracts</b>	<ul style="list-style-type: none"> <li>— At no time during the year did any Director hold a material interest in any contract of significance with the Company or any subsidiary undertaking.</li> </ul>

# Risk management and internal control

The Board is responsible for ensuring that an appropriate and effective system of internal control and risk management is in place across the Group. The framework of risk management and internal controls centres on clear delegated authorities to ensure Board oversight and control of important decisions. The framework is underpinned by the Group Code of Business Conduct, which sets out the ethical standards the Board requires of itself, employees, agents and others working in the Group. The framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## Internal control

The Group Governance Manual (the Manual) sets out delegated authorities and establishes the requirements for subsidiaries to seek approvals from or report to Group Head Office. Group-wide standards are established through policies and other governance arrangements, which are also included in the Manual. Internal controls and processes, based on the provisions established in the Manual, are in place across the Group. These include controls for the preparation of financial reporting. The operation of these controls and processes facilitates the preparation of reliable financial reporting and the preparation of local and consolidated financial statements in accordance with the applicable accounting standards and requirements of the Sarbanes-Oxley Act. These controls include certifications by the Chief Executive and Chief Financial Officer of each business unit regarding the accuracy of information provided for use in preparation of the Group's consolidated financial reporting and the assurance work carried out in respect of US reporting requirements.

The Board has delegated authority to the Audit Committee to review the framework and effectiveness of the Group's systems of internal control. The Audit Committee is supported in this responsibility by the assurance work carried out by Group-wide Internal Audit and the work of the business unit audit committees, which oversee the effectiveness of controls in each respective business unit. Details of how the Audit Committee oversees the framework of controls and their effectiveness on an ongoing basis, is set out more fully in the report on pages 105 to 114.

## Risk management

A key component of the Manual is the Group Risk Framework, which requires all business units to establish processes for identifying, evaluating and managing the risks facing the business.

The Risk Committee is constituted by the Board for the purpose of assisting the Board in providing leadership, direction and oversight of the Group's overall risk appetite, risk tolerance and strategy, and for monitoring the effectiveness of the risk management framework and adherence to the various risk policies. The Risk Committee also has authority to review and approve changes made to the Group risk framework and risk policies, approve changes to risk limits within the overall Board approved risk appetite, approve the Group's top risks, and oversee, and advise the Board, on the current and potential future risk exposures of the Group. Regular activities are detailed in the report on pages 115 to 119.

The Group's risk governance arrangements, which support the Board, the Risk Committee and the Audit Committee, are based on the principles of the 'three lines of defence' model: risk taking and management, risk control and oversight, and independent assurance.

## First line of defence (risk taking and management)

- Takes and manages risk exposures in accordance with the risk appetite, mandate and limits set by the Board;
- Identifies and reports the risks that the Group is exposed to, and those that are emerging;
- Promptly escalates any limit breaches or any violations of risk management policies, mandates or instructions;
- Identifies and promptly escalates significant emerging risk issues; and
- Manages the business to ensure full compliance with the Group risk management framework as set out in the Manual, which includes the Group Risk Framework and risk policies as well as approval requirements, among other requirements.

## Second line of defence (risk control and oversight)

- Assists the Board to formulate and then implement the approved risk appetite and limit framework, risk management plans, risk policies, risk reporting and risk identification processes; and
- Reviews and assesses the risk-taking activities of the first line of defence, where appropriate challenging the actions being taken to manage and control risks and approving any significant changes to the controls in place.

## Third line of defence (independent assurance)

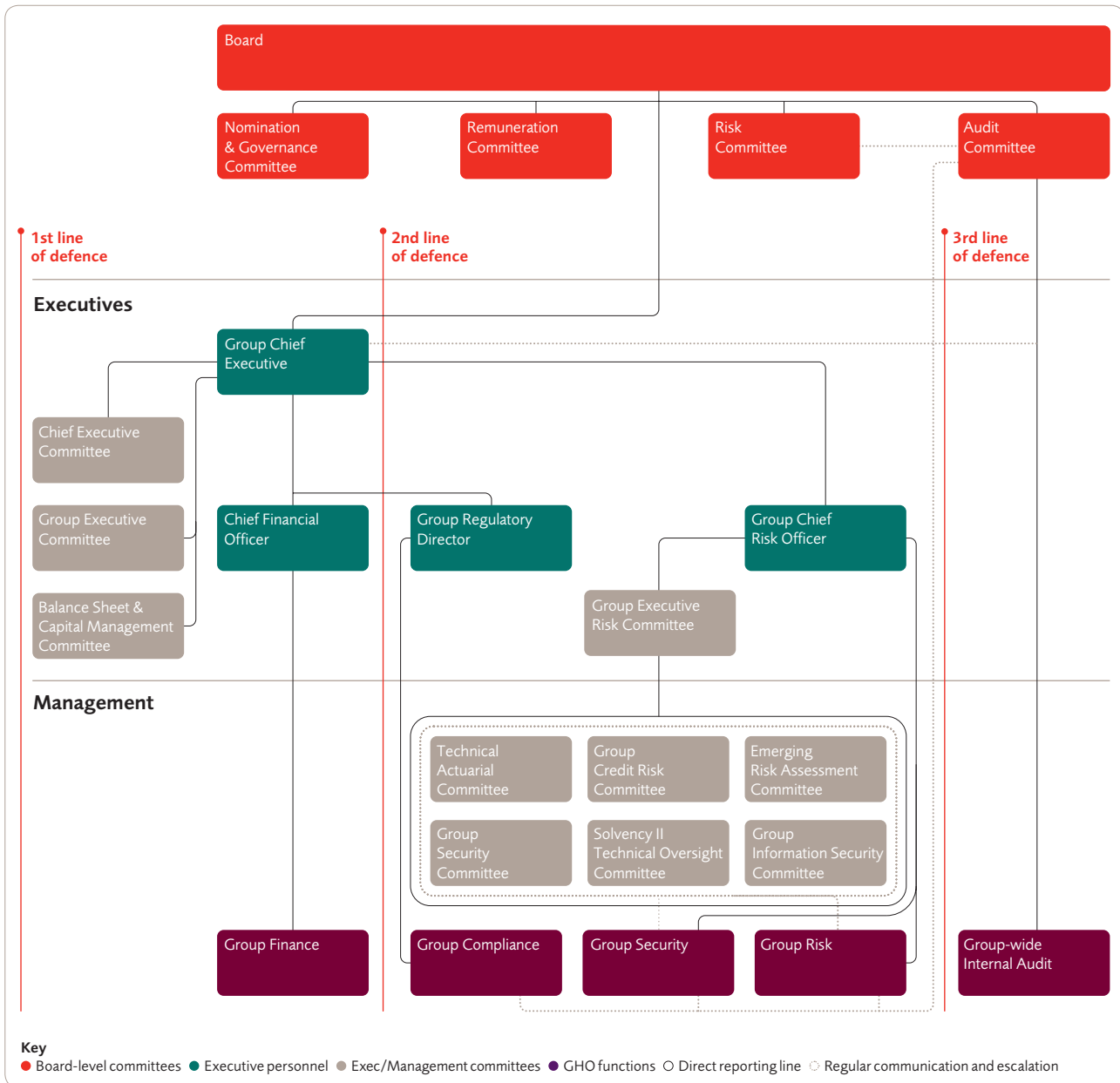
- Provides independent assurance on the design, effectiveness and implementation of the overall system of internal control, including risk management and compliance.

## Formal review of controls

A formal evaluation of the systems of internal control and risk management is carried out at least annually. The report is considered by the Audit Committee and Risk Committee prior to the Board reaching a conclusion on the effectiveness of the systems in place. This evaluation takes place prior to the publication of the Annual Report.

As part of the evaluation, the Chief Executive and Chief Financial Officer of each business unit, including Group Head Office, certify compliance with the Group's governance policies and the risk management and internal control requirements. The Group Risk function facilitates a review of the matters identified by this certification process. This includes the assessment of any risk and control issues reported during the year, risk and control matters identified and reported by the other Group oversight functions and the findings from the reviews undertaken by Group-wide Internal Audit, which carries out risk-based audit plans across the Group. Issues arising from any external regulatory engagement are also taken into account.

# Risk management and internal control continued



For the purposes of the effectiveness review, the Group has followed the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. In line with this guidance, the certification provided above does not apply to certain material joint ventures where the Group does not exercise full management control. In these cases, the Group satisfies itself that suitable governance and risk management arrangements are in place to protect the Group's interests. However, the relevant Group company which is party to the joint venture must, in respect of any services it provides in support of the joint venture, comply with the requirements of the Group's internal governance framework.

## Effectiveness of controls

In accordance with provision C.2.3 of the UK Corporate Governance Code and provision C.2.1 of the HK Corporate Governance Code, the Board reviewed the effectiveness and performance of the system of risk management and internal control during 2017. This review covered all material controls, including financial, operational and compliance controls, risk management systems and the adequacy of the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions. The review identified a number of areas for improvement and the necessary actions have been or are being taken.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place throughout the period and up to the date of this report, and confirms that the system remains effective.

## Committee reports

The principal Board Committees are the Nomination & Governance, Audit, Risk and Remuneration Committees. These Committees form a key element of the Group governance framework, providing effective independent oversight of the Group's activities by the Non-executive Directors.

Each Committee Chair provides an update to the Board of each Committee meeting, supported by a short written summary of the Committee business considered.

### Nomination & Governance Committee report

#### Dear Shareholder

The Board changes in 2017 have again demonstrated the effectiveness of our preparations for Board level succession. Full details of all Board changes during the year can be found on page 83.

The smooth transition of David Law as our new Audit Committee Chair, who also joined this Committee in May, and the appointment and induction of Tom Watjen has helped to refresh the Non-executive roles on the Board.

The move by Nic Nicandrou to become Chief Executive of Prudential Corporation Asia and the appointment of Mark FitzPatrick as Chief Financial Officer demonstrates both the effectiveness of our succession planning preparations and the ability of the Committee to recruit high calibre candidates with the appropriate skills and knowledge for our business.

Having the right individuals in place in leadership roles is fundamental to the successful delivery of our strategy. The Board requires a diverse skill set which can be deployed across our Committees and businesses for the benefit of the Group and its stakeholders.

Careful ongoing review and planning ensures that our Board continues to attract the high calibre individuals it requires and that there are no gaps in leadership. In 2017, the Committee formalised its approach in this area by creating a skills map to support succession planning, which identifies sector-specific and general operational competencies as well as geographic and business experience.

The retirement of Ann Godbehere, in May 2017, at the end of nine years of service as a Non-executive Director, and Penny James stepping down as an Executive Director and Group Chief Risk Officer in September

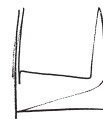
2017, have impacted the Board's gender diversity. The Committee has therefore committed to focus particularly on strengthening gender diversity, alongside diversity of skills, in its succession planning in 2018.

The role of the Committee has grown since 2016 when we took on responsibility for overseeing the governance arrangements in the Group. This includes the governance of our Material Subsidiaries, in order to ensure that those boards operate effectively and that their independent non-executive directors can constructively challenge and monitor performance in those businesses. We have spent time as a Committee considering the composition and effectiveness of those boards, the processes around their risk and audit committees, and the tenure and succession of their non-executives.

Part of my role as Chair is to oversee the governance arrangements for this Committee. The Committee considered its terms of reference in November 2017, and in the preparation of this report I have considered the time commitment, number of meetings and skills and experiences required for Committee members.

As the Committee Chair, I also have the responsibility for ensuring the Committee runs effectively and makes the most of its meeting time. I encourage open debate and contributions from all Committee members.

As part of the Board's effectiveness review, described in more detail on pages 93 and 94, the Committee was found to be operating effectively and given action points around developing its skills map and considering Committee membership, both of which are ongoing tasks.



**Paul Manduca**  
Chair of the Nomination & Governance Committee

#### Committee members

- Paul Manduca (Chair)
- Howard Davies
- David Law (from May 2017)
- Anthony Nightingale
- Philip Remnant
- Ann Godbehere (until May 2017)

#### Regular attendees

- Group Chief Executive
- Group Human Resources Director
- Group General Counsel and Company Secretary

**Number of meetings in 2017: Four**

# Committee reports continued

## How the Committee spent its time during 2017

	Feb	May	Jun	Nov
<b>Year end matters, re-election and tenure</b>				
Review external positions, conflicts of interests and independence, time commitment, tenure and terms of appointment	●			
Review performance of Chairman and Non-executive Directors	●			
Review relevant disclosures in the Annual Report and Accounts	●			
Recommend election of Directors by shareholders	●			
<b>Succession planning, skills mapping and appointments</b>				
Chairman				●
Non-executive Directors	●		●	●
Group Chief Executive	●			
Executive Directors		●		●
GEC composition				●
<b>Governance</b>				
Membership review of principal Board Committees	●			
Committee terms of reference				●
<b>Material Subsidiary governance</b>				
Subsidiary board composition, non-executive succession planning and appointments			●	●
Material Subsidiary committee attendance				●
Terms of reference for Material Subsidiary boards, chairs and committees	●			●
Material Subsidiary governance manual	●			●
Material Subsidiary board, chair and director evaluations	●			

## Key matters considered during the year

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
<b>Succession planning</b>	<p>Throughout the year, the Committee kept succession plans for all Executive and Non-executive Board roles under review. Succession plans are supported by the year end Board evaluation and individual performance evaluations.</p> <p>The Committee takes account of the size, structure and composition of the Board and its Committees, including existing knowledge, experience and diversity. In doing so, the Committee considers the Group's strategic needs and anticipates future needs, skills and experience. The Committee is responsible for developing and periodically reviewing objectives established for the implementation of diversity on the Board and monitoring progress toward the achievements of those objectives. A description of the Group Diversity and Inclusion Policy is included on page 97. Following the departure of Ann Godbehere and Penny James in 2017, the Committee is focusing on gender diversity, alongside diversity of skills, in its succession planning in 2018.</p> <p>The Committee works with the Group Chief Executive and Group Human Resources Director to ensure that when a vacancy or a gap in the Board's skills is identified, a role specification is prepared, taking into account feedback from the Committee and the Group's Diversity and Inclusion Policy. Once the specification is agreed, specialist talent agencies are typically engaged to create a shortlist of candidates for review by the Committee and other stakeholders. Interviews with individuals then take place and feedback is provided to the Committee members. In this manner, a preferred candidate is selected and the Committee then recommends the individual to the Board for appointment (subject to regulatory approval where required).</p> <p>Contemporaneously with this process, thorough due diligence checks are undertaken on the candidate and we liaise with the FCA and PRA as to the suitability of the individual from a regulatory perspective, as needed.</p>



## Key matters considered during the year continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
Non-executive Directors	<p>During the year, the Committee finalised the terms of appointment of Mr Watjen as a Non-executive Director. The work of the Committee was supported by Russell Reynolds as search consultant. See page 104.</p> <p>In 2017, the Committee debated and approved a skills map for use in Non-executive succession planning discussions. The skills map identifies key skills and experiences, including sector, geographic and operational skills, which are desirable for the Board as a whole, taking account of the Group's strategic direction.</p> <p>As part of its focus on searching for an additional Non-executive Director, in November 2017 The Miles Partnership was instructed to begin a market mapping exercise with particular focus on potential female candidates to ensure that the Board's gender diversity was addressed in a positive manner.</p>
Executive Directors and senior executives	<p>The Committee carried out its annual review of the succession plans in place for the Group Chief Executive, other Executive Directors and Group Executive Committee roles.</p> <p>The development and renewal of these plans was led by the Group HR Director, supported by Egon Zehnder in the case of the Group Chief Executive plan and by Talent Intelligence for the other Executive Director roles and GEC members. In 2017, Talent Intelligence prepared long-lists and short-lists with a focus on gender and ethnic diversity requirements.</p> <p>The Committee has oversight of senior executive level succession planning and the talent pipeline. The Committee discussed these plans closely with the Group Chief Executive to identify business requirements and plan for future succession needs and gave feedback on the planning process. The Company continues to commit to developing a robust and diverse talent pipeline, increasing representation of women in senior positions.</p> <p>During 2017:</p> <ul style="list-style-type: none"> <li>— Mr FitzPatrick was appointed as Chief Financial Officer in July 2017, following completion of a comprehensive search;</li> <li>— Following the departure of Penny James in September 2017, Prudential appointed Pat Casey as Interim Group Chief Risk Officer while the search for a permanent successor continued. Following a recommendation from the Committee, the Board appointed James Turner as an Executive Director and as Group Chief Risk Officer with effect from 1 March 2018; and</li> <li>— Mr Nicandrou took on the role of Chief Executive of Prudential Corporation Asia, following Mr Wilkey's departure.</li> </ul> <p>In each case, the Committee was well prepared and responsive, considering candidate profiles and skills and conducting interviews.</p>
Use of search consultancies	<p>Neither Russell Reynolds nor The Miles Partnership have any additional connection with Prudential. In addition to acting as search consultant for certain executive hires, Egon Zehnder also provides support for senior development assessments. Talent Intelligence also provides additional succession planning support to the Group below GEC level.</p>
Review of principal Committee membership	<p>The Committee regularly reviews the membership of all principal Committees and makes recommendations to the Board as appropriate.</p> <p>In February 2017, the Committee made recommendations to the Board to appoint Lord Turner to the Audit Committee and to appoint Mr Law to the Risk Committee and as Audit Committee Chair, which changes became effective in May 2017. The Committee recommended the appointment of Mr Watjen to the Remuneration Committee on his appointment as a Non-executive Director in July 2017.</p> <p>In February 2018, the Committee also recommended the appointment of Ms Schroeder as a member of the Risk Committee, which was effective from 1 March 2018.</p> <p>Full details of changes to the membership of the principal Committees are set out on page 83.</p>

## Committee reports continued

### Key matters considered during the year continued

<b>Matter considered</b>	<b>How the Committee addressed the matter</b>
Election of Directors	<p>As part of its ongoing work on Board succession planning, the Committee considered the terms of appointment for the Chairman, Committee Chairs and Non-executive Directors taking into account time commitment and the general balance of skills, diversity, experience and knowledge on the Board, assessing length of service in their roles.</p> <p>Particular attention has been paid to the recommendation to re-elect Mr Nargolwala and Sir Howard Davies at the Annual General Meeting to be held in 2018 due to their length of service.</p> <p>Having reviewed the performance of the Non-executive Directors in office at the time, and having received feedback from the Group Chief Executive on the performance of the Executive Directors, the Committee concluded that each Director continued to perform effectively and was able to devote sufficient time to fulfil their duties, taking account of the number and nature of their external appointments. The Committee recommended to the Board that all Directors should stand for election at the Company's Annual General Meeting.</p>

### Independence and conflicts of interest

Independence criteria	The Committee considered the independence of the Non-executive Directors against relevant requirements as outlined on page 98.
Conflicts of interest	<p>The Board has delegated authority to the Committee to consider, and authorise where necessary, any actual or potential conflicts of interest.</p> <p>Prior to proposing Directors for re-election, the Committee considered the external appointments of all Directors and reviewed existing conflict authorisations, reaffirming or updating any terms or conditions attached to authorisations where required. In addition, the Committee considered the external positions of those Directors appointed during the year, noted changes in the external positions of existing Directors and considered whether these gave rise to any conflicts.</p> <p>The Board considers that the procedures set out above for dealing with conflicts of interest, operate effectively.</p>

### Governance

Group subsidiaries	During the year under review, the Committee carried out various duties related to the Material Subsidiaries including succession planning arrangements for non-executive directors, evaluating the performance of the Material Subsidiary boards, chairs and directors, reviewing Material Subsidiary governance arrangements, including principles for attendance at committee meetings, and the terms of reference for the Material Subsidiary boards and chairs.
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### Appointment of Tom Watjen

The Committee undertook a thorough and international search for potential candidates, supported by Russell Reynolds who were engaged for this purpose. The objective of the search was to enhance the Board's US expertise and insurance executive experience. Mr Watjen was identified as a preferred candidate following interviews with the Chairman, the Senior Independent Director and Group Chief Executive. The Committee reviewed Mr Watjen's skills and experiences against the needs of the business, noting in particular his knowledge of the insurance sector, his many years in senior executive roles and his understanding of US regulatory matters. His appointment was then recommended to the Board for consideration and subsequently approved in July 2017.

## Audit Committee report

### Dear Shareholder

It has been a great pleasure to take over responsibility as Chair of the Committee from Ann Godbehere who retired from the Board in May 2017. I would like to thank her for the significant contribution she made to the Committee during her nine years of service.

In May 2017 we welcomed Lord Turner as an additional Committee member. Lord Turner's biography is included on page 87.

A key part of the Committee's role is to provide the Board with assurance as to the integrity of the business through our activities in monitoring financial reporting and the second and third lines of defence as part of our internal control environment.

The Committee continued to focus on the integrity of the Group's financial reporting and ensuring appropriate financial accounting policies are adopted and implemented. We reviewed management's annual process for setting assumptions which underpin the Group's IFRS insurance liabilities and European Embedded Value (EEV) results and requested additional information and clarification where needed. Building on work undertaken in prior years, in 2017 we further accelerated our year end process and carried out a substantive review of key judgements, such as UK mortality and expenses, policyholder behaviour assumptions in Jackson and, for EEV reporting in particular, persistency in Asia, before the year end. As in previous years, the Committee reviewed the Group's Annual Report and Accounts and advised the Board that they were considered to be fair, balanced and understandable. The Committee also reviewed the Group's Solvency II reporting disclosures forming part of our 2016 full year and 2017 half and full year reports. Following a transfer of duties from the Risk Committee during the year, the Committee is now responsible for reviewing the Solvency and Financial Condition Report (SFCR) and the Regulatory Supervisory Report (RSR), which is a private regulatory filing.

An important part of the Committee's duties is to monitor the relationship with the Group's external and internal auditors. The Committee reviewed the activities of KPMG as external auditor and made a recommendation to the Board concerning their continuing appointment (subject to shareholder approval) which took into account a number of factors including

independence and objectivity, the level of remuneration, effectiveness, and tenure. The Committee also approved non audit work that was considered appropriate and in line with the Group's policy. During the year, KPMG scored highly in our effectiveness review which included feedback from senior finance personnel across all our business units. It remains the Committee's current view that, without exceptional circumstances, change to auditors should not occur prior to the adoption of the new accounting standards on insurance contracts (IFRS 17). A plan to identify their successors to ensure a smooth transition has been developed.

During the year the Committee continued to receive regular briefings from the Group-wide Internal Audit (GwIA) function. Delivery of the internal audit plan represents a key component of the Committee's oversight of the Group's internal controls procedures. GwIA undertook a programme of risk-based audits covering matters across the business units in addition to assurance work on significant change programmes such as preparations for the implementation of the General Data Protection Regulations (GDPR) and MiFID II. We also approved the 2018 audit plan which focuses on matters such as financial, business change, regulatory and operational risks as well as consideration of controls to deliver appropriate customer outcomes. The plan was mapped to the key risks identified by the Group Risk Committee and is kept under review throughout the year as necessary to ensure the programme remains in line with business needs.

The Committee regularly reviews the performance of GwIA and monitors the adequacy of the resourcing available to the function. In addition, in 2017 an independent External Quality Assessment (EQA) of GwIA was undertaken by Deloitte in line with the Chartered Institute of Internal Auditors Standards (the Standards). The EQA concluded that GwIA met the Standards and code of ethics, and assisted both the Committee and the executive management in identifying and mitigating risk.

During the year I was involved in recruiting a successor to the role of Director of GwIA. After an extensive internal and external search, we appointed an individual with extensive knowledge of the Group, having previously been the Chief Operating Officer of Group Risk, and before that the Group Compliance Director.



**David Law**  
Chair of the Audit Committee

#### Committee members

- David Law (Chair) (from May 2017)
- Ann Godbehere (until May 2017)
- Howard Davies
- Philip Remnant
- Alice Schroeder
- Lord Turner (from May 2017)

#### Regular attendees

- Chairman of the Board
- Group Chief Executive
- Chief Financial Officer
- Group Chief Risk Officer
- Director of Group Finance
- Group Regulatory and Government Relations Director
- Group General Counsel and Company Secretary
- Director of Group Compliance
- Director of Group-wide Internal Audit
- External Audit Partner

**Number of meetings in 2017: Nine.**  
**In addition, a joint meeting was held with the Risk Committee**

## Committee reports continued

The Committee received updates against the annual Compliance Plan (the Plan). In 2017 the Plan focused on a number of areas to help strengthen the compliance framework, which is intended to aid the Group in meeting regulatory obligations. The Plan also included the management and review of Group Compliance top risks, including anti-money laundering and anti-bribery and corruption.

We also refreshed the Group's whistleblowing protocols and spent time with the Group Resilience Director to gain comfort that he was appropriately supported. The Committee sponsored a special review to ensure there was no evidence of abuse of power in the workplace.

During 2017 the Committee reviewed our first published tax strategy and environmental, social and governance (ESG) report, both released in May. Another key piece of work was our review of the disclosures about the merger of M&G and Prudential UK & Europe into one business and an additional meeting was held to discuss these. Members of the Committee also received additional updates on the impact of MiFID II, and reviewed the financial disclosures relating to the partial sale of the UK annuity portfolio.

The Committee looks to identify matters likely to impact the Group going forward. In addition to its usual activities, in 2018 the Committee expects to consider further the impact of IFRS 17, as well as monitoring regulatory changes and the impact of major projects such as the creation of M&G Prudential on the Group's internal controls functions.

The Committee also works closely with the Risk Committee to make sure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, I work with Sir Howard to agree the most appropriate Committee to consider the matter. In December we held a joint informational session on cyber security, to which all Directors were invited.

As part of my transition, as well as the regular meetings with the Material Subsidiary audit committee chairs to facilitate escalation of important matters and reporting of material issues to the Committee, I attended one of each of the Material Subsidiary audit committee meetings to gain a better understanding of how they operate. I found this helpful and will look to repeat this in the coming years.

Part of my role as Chair is to consider the governance arrangements for the Committee. The Committee considers its terms of reference at least annually and proposed changes to its terms of reference in December 2017. The only significant change related to the review of Solvency II disclosures which now rests with the Committee.

As Chair of the Committee, I have responsibility for ensuring the Committee operates effectively. To ensure we do so and provide constructive challenge to management, I encourage open debate and contributions from all Committee members. Committee members are encouraged to meet with management or the internal and external audit team where this assists them in their preparations. I report to the full Board after each meeting on the main matters discussed.

An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 94. The Committee was found to be functioning effectively.

## How the Committee spent its time during 2017

	Feb	Mar <sup>1</sup>	May	Jul	Aug <sup>1</sup>	Nov	Dec
<b>Financial reporting and external auditor</b>							
Periodic financial reporting including:							
— Key accounting judgements and disclosures	●	●	●	●	●	●	●
— Solvency II results and governance processes							
— Associated audit reports							
Review of announcement of the merger of M&G and Prudential UK & Europe					●		
Developments in tax disclosures	●		●			●	●
Audit planning, fees, independence, effectiveness and re appointment	●		●	●			
<b>Internal control framework</b>							
Internal control framework effectiveness	●						
<b>Internal auditors</b>							
Status updates and effectiveness	●		●	●		●	●
Internal audit plan				●			●
<b>Compliance</b>							
Status updates	●		●	●		●	●
Compliance plan							●
MiFID II updates						●	●
<b>Financial crime and whistleblowing</b>							
Update on whistleblowing issues raised	●		●	●		●	●
Financial crime prevention including anti-money laundering, prevention of tax evasion and anti-bribery and corruption programmes	●						●
<b>Governance and reporting</b>							
Material Subsidiaries updates	●	●	●	●	●	●	●
Internal framework effectiveness/refresh	●		●	●		●	●
Environmental, social and governance reporting			●				
Business unit audit committee effectiveness, status updates and terms of reference	●		●	●		●	●
Committee terms of reference							●

### Note

<sup>1</sup> Two meetings were held in each of March and August 2017.

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## Key matters considered during the year

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### *Matter considered*

### *How the Committee addressed the matter*

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#### **Financial reporting and tax**

##### Overview

One of the Committee's key responsibilities is to monitor the integrity of the financial statements.

The Committee assessed whether appropriate accounting policies had been adopted throughout the accounting period and whether management had made appropriate estimates and judgements over the recognition, measurement and presentation of the financial results. There were no new or altered accounting standards in 2017 that had a material effect on the Group's financial statements.

The Committee considered compliance with accounting standards and obligations under applicable laws, regulations and governance codes. Particular areas on which the Committee focused during the year included the fair, balanced and understandable requirement under the UK Corporate Governance Code, providing advice to the Board in respect of this requirement and reviewing the up-date of these disclosures for revised reporting requirements.

In May 2017 the Group published externally, for the first time, a Group tax strategy document and a Group environmental, social and governance report. Both documents were reviewed by the Committee, which was updated on the approach and progress as the documents were developed.

##### Key assumptions and judgements

The Committee reviewed the key assumptions and judgements made in valuing the Group's investments, insurance liabilities and deferred acquisition costs under IFRS, together with reports on the operation of internal controls to derive these amounts. It also reviewed the assumptions underpinning the Group's European Embedded Value (EEV) metrics. The Committee considered information, including peer comparisons if relevant and available, on the following key assumptions:

- Persistency, mortality, morbidity and expense assumptions within the Asia life businesses;
- Economic and policyholder behaviour assumptions (including mortality) affecting the measurement of Jackson guaranteed liabilities and amortisation of deferred acquisition costs; and
- Mortality, expense and credit risk assumptions for the UK annuity business. Mortality assumptions were a particular focus for the Committee following a detailed review of granular historic experience data by the UK business and the release of new industry mortality improvement tables. Further information is contained in the consolidated financial statements on pages 267 to 269.

The Committee was satisfied that the assumptions adopted by management were appropriate.

The Committee also received information on the nature of goodwill and intangible asset values and considered what factors might give rise to an impairment of the Group's intangibles and whether those factors had arisen in the period. The Committee was satisfied that there was no impairment of the Group's intangibles at 31 December 2017.

The Committee reviewed and challenged updates to the Group's independent price valuation policy for investments and endorsed the proposed enhancements to Group Finance oversight of this policy. It also received information on the carrying value of investments in the Group's balance sheet including data on the approach used in that valuation (for example, the level of asset valued on a mark to market basis).

The Committee satisfied itself that overall investments were valued appropriately.

The Committee regularly reviews the Group's provisions, including the level of provisioning for regulatory and litigation matters and provisions for certain open tax items including tax matters in litigation. The Committee was satisfied that the level of provisioning adopted by management was appropriate.

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## Key matters considered during the year continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
Other financial reporting matters and tax reporting	<p>The Committee considered various analyses from management regarding Group and subsidiary capital and liquidity prior to recommending to the Board that it could conclude that the financial statements should continue to be prepared on the going-concern basis and the disclosures on the Group's longer-term viability were both reasonable and appropriate.</p> <p>As part of its assessment of the description of performance within the Annual Report, the Committee considered judgemental aspects of the Group's reporting across the Group's IFRS and EEV metrics.</p> <p>This assessment included a review to ensure that the allocation of items between operating and non-operating profit was in accordance with the Group's accounting policy. The Committee considered the impact of equity and interest rate movements on the IFRS results of the Group's US business and after discussion, the Committee was satisfied that the presentation and disclosure of such impacts was appropriate and consistent with prior periods. Following the announcement of the merger of M&amp;G and the UK life business, the Committee re-evaluated the Group's segmental disclosure, resulting in a revision to reflect the revised business unit structure. Prior to the announcement of the merger, the Committee also reviewed the basis of preparation of the costs and synergies disclosed. This work was supported by external independent review of management's proposed disclosures.</p> <p>The potential impact of proposed US tax reforms was considered in advance of their implementation in December 2017 and the impact of the final rule changes were discussed in detail post year end.</p> <p>The Committee reviewed and approved the Group's tax strategy which was subsequently published in May 2017 and was also updated on the 2016 country by country tax disclosures required to be filed with HM Revenue &amp; Customs by the end of 2017.</p> <p>The Committee reviewed the parent company profit and loss account and balance sheet, which included recognition of a pension surplus asset.</p> <p>In addition to these reporting matters, the Committee also received and considered regular updates from management on the status and implications for the Group of financial reporting developments, including new accounting standards due to be implemented over the period 2018-2021. In particular it received an overview of the requirements of IFRS 17 on insurance contracts, following publication of the final standard in the first half of 2017.</p>

## Committee reports continued

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### Key matters considered during the year continued

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#### *Matter considered*

#### *How the Committee addressed the matter*

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#### External audit

#### Review of effectiveness, non-audit services and auditor reappointment

##### External audit effectiveness

The Group's external auditor is KPMG LLP (KPMG) and oversight of the relationship with them is one of the Committee's key responsibilities. This included challenging and querying KPMG's approach to risk and other issues regularly throughout the year.

The Committee approved KPMG's terms of engagement for the statutory audit, and approved fees for both audit and non-audit services in accordance with the Group's policy. To assess the effectiveness of the auditor, the Committee reviewed the audit approach and strategy, and received an internal report on their performance.

The separate internal evaluation of the auditor was conducted using a questionnaire which was circulated to the Committee, the Chief Financial Officer and the Group's senior financial leadership for completion.

The feedback provided was reviewed and compiled into a report for the Committee which covered areas such as the knowledge and expertise of the partners and team members, their understanding of the Group, the resourcing applied to the audit and continuity of the team, liaison with Group-wide Internal Audit and approach to resolution of issues, as well as factors such as their coordination across the Group's multiple jurisdictions and quality of their written and oral communication. The degree of challenge and robustness of approach to the audit were key components of the evaluation.

The Committee Chairman invited other Group stakeholders to provide their views on the performance of the auditor, and KPMG were given the opportunity to respond to the findings in the report.

KPMG also provided commentary on the findings of the FRC's Annual Audit Quality Review of KPMG and the firm-wide actions being taken to address observations made.

On completion of the activities outlined above, the Committee concluded that the audit had been effective and the challenge appropriately robust across all parts of the Group.

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##### Auditor independence and objectivity

The Committee has responsibility for monitoring auditor independence and objectivity and is supported in doing so by the Group's Auditor Independence Policy (the Policy). The Policy is updated annually and approved by the Committee. It sets out the circumstances in which the external auditor may be permitted to undertake non-audit services and is based on four key principles which specify that the auditor should not:

- Audit its own firm's work;
- Make management decisions for the Group;
- Have a mutuality of financial interest with the Group; or
- Be put in the role of advocate for the Group.

The Policy has two permissible service types: those that require specific approval by the Committee on an engagement basis and those that are pre-approved by the Committee with an annual monetary limit. In accordance with the Policy, the Committee approved these permissible services, classified as either audit or non-audit services, and monitored the usage of the annual limits on a quarterly basis. All non-audit services undertaken by KPMG were agreed prior to the commencement of work and were confirmed as permissible for the external auditor to undertake under the rules and regulations of the US Securities and Exchange Commission (SEC) and the standards of the Public Company Accounting Oversight Board (PCAOB). In 2016, the Committee considered and approved revisions to the Policy with effect from 1 January 2017, to reflect final rules and guidance issued by the Financial Reporting Council, in connection with the implementation of broader European Union (EU) reforms to the audit market. This ensured that the schedule of prohibited non-audit services was in line with EU reforms referenced above. In 2017 the Committee reconsidered the Policy and concluded that it remained appropriate.

In keeping with professional ethical standards, KPMG also confirmed their independence to the Committee and set out the supporting evidence for their conclusion in a report that was considered by the Committee prior to publication of the financial results.

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## Key matters considered during the year continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
Fees paid to the auditor	<p>The fees paid to KPMG for the year ended 31 December 2017 amounted to £17.3 million (2016: £16.2 million) of which £2.6 million (2016: £2.8 million) was payable in respect of non-audit services. Non-audit services accounted for 15 per cent of total fees payable (2016: 17 per cent). A breakdown of the fees paid to KPMG can be found in Note B2.4 to the financial statements on page 194.</p> <p>Of the £2.6 million of non-audit services, the principal types of non-audit engagements approved for 2017 were other assurance services of £1.5 million (of which £0.8 million related to Solvency II reporting and disclosures) and other non-audit services of £0.7 million. In accordance with the Policy, all non-audit services were pre-approved by the Committee. It was considered appropriate for KPMG to undertake work relating to the Group's Solvency II reporting and disclosure requirements because the terms of the engagement were in compliance with the Policy and KPMG's knowledge of the Group's processes facilitated the efficient execution of the work.</p>
Reappointment	<p>Based on the outcome of the effectiveness evaluation and all other considerations, the Committee concluded that there was nothing in the performance of the auditor which would require a change. The Committee therefore recommended that KPMG be reappointed as the auditor. A resolution to this effect will be proposed to shareholders at the 2018 Annual General Meeting.</p>
Audit tender	<p>The Committee acknowledges the provisions contained in the UK Code in respect of audit tendering, along with European rules on mandatory audit rotation and audit tendering. In conformance with these requirements, the Company will be required to change audit firm no later than for the 2023 financial year end.</p> <p>The external audit was last put out to competitive retender in 1999 when the present auditor, KPMG, was appointed. Since 2005, the Committee has annually considered the need to retender the external audit service. The Committee recognises that the industry is in a period of unprecedented change with the IASB issuing its new insurance accounting standard in 2017, for implementation in 2021. The Committee currently believes any change of auditor should be scheduled to limit operational disruption during such a period of change and, as a consequence, is not currently planning to change auditors before the adoption of IFRS 17. This remains subject to the Committee's normal annual review of auditor performance and recommendation to shareholders as described above. The Committee considered its strategy on audit tendering in November 2017, concluding that the existing timeline for appointing a new auditor by the 2022 year end, did not need to be amended. In conducting this review, the Committee concluded that it would be appropriate to commence a competitive tender for the 2022 audit in 2019.</p> <p>The Company has complied throughout the 2017 financial year with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 issued by the Competition and Markets Authority.</p> <p>A plan to identify successor firms to ensure that there is sufficient time for an orderly transition and to safeguard independence was considered and agreed by the Committee.</p> <p>In line with the FRC Ethical Standard, the rules and regulations of the SEC and the standards of the PCAOB, a new lead audit partner, Philip Smart, has been appointed in respect of the 2017 financial year. Mr Smart is expected to be in place until the completion of the 2021 reporting cycle. Prior to taking up this role, Mr Smart shadowed the outgoing lead audit partner. During the 2016 year end audit, he met with members of the Committee and management team, including management teams of our business units, and attended Committee meetings and met with members of the Committee.</p>

## Committee reports continued

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### Key matters considered during the year continued

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#### *Matter considered*

#### *How the Committee addressed the matter*

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#### Third line oversight

#### Internal audit

#### Regular reporting

The quality of the internal control systems is assessed by the Group's Internal Audit function using independent audit procedures. Each of the Group's business units has an Internal Audit team, the heads of which report to the Director of GwIA. The Committee received regular updates from GwIA on audits conducted and management's progress in addressing audit findings within agreed timelines. Any delays in implementing remediation action are escalated to the Committee and given particular scrutiny. The independent assurance provided by GwIA formed a key part of the Committee's deliberations on the Group's overall control environment. The Director of GwIA reports functionally to the Chairman of the Committee and for management purposes to the Group Chief Executive, and also has direct access to the Chairman of the Board. In addition to formal Committee meetings, the Committee meets with the Director of GwIA in private to discuss matters relating to, for example, the effectiveness of the internal audit function, significant audit findings and the risk and control culture of the organisation.

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#### Annual plan and focus for 2018

The Committee approved the half year update of the 2017 plan. It also considered and approved the Internal Audit Plan, resource and budget for 2018.

At the half year, the Committee considered recommendations to refresh the Internal Audit Plan in response to changes in the business unit operating environments and an update to the Group's top risks. The 2018 Internal Audit Plan was formulated based on a bottom-up risk assessment of audit needs mapped against various metrics combined with top-down challenge. The plan was then mapped against a series of risk and control parameters, including the top risks identified by the Risk Committee, to verify that it is appropriately balanced between financial, business change, regulatory and operational risk drivers and provides appropriate coverage of key risk areas and audit themes within a risk-based cycle of coverage. Key areas of focus for 2018 include strategic change initiatives, customer outcomes, cyber security and digitalisation.

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#### Internal audit effectiveness

The Committee is responsible for approval of the GwIA charter, audit plan, resources, and for monitoring the effectiveness of the function. The Committee assesses the effectiveness of GwIA through a combination of EQA reviews, required every five years, and an annual internal effectiveness review, performed by the GwIA Quality Assurance Director.

In 2017, Deloitte performed an EQA of GwIA, which assessed that GwIA generally conforms with the Institute of Internal Audit (IIA) Standards and Code of Ethics (the highest rating under the IIA's framework), and displays an overall level of adherence to the principles set out in the UK Chartered IIA Code. The assessment also considered GwIA's purpose, position, processes and reporting in the context of Group's wider systems of governance. In addition, to ensure GwIA skill sets and resourcing levels align to the approved audit plan, a skills and resource gap analysis was undertaken to highlight any resource shortfall or required change in available skill sets to support the delivery of the plan. The analysis concluded that resources were sufficient to execute the plan.

Having considered the findings of the EQA, and the 2017 internal effectiveness review, the Committee concluded that GwIA had continued to operate in compliance with the requirements of GwIA policies, procedures and practice standards in all material respects and had remained aligned to mandated objectives during 2017.

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## Key matters considered during the year continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
Business unit audit committees	<p>The Committee is supported by the work carried out by the audit committees at the level of individual business units, in particular those established by our Material Subsidiaries, which provide oversight of the respective business units. The Committee annually reviews the effectiveness of these committees in meeting their defined terms of reference.</p> <p>Membership of the committees for all Material Subsidiaries comprises solely of independent non-executive directors of those subsidiaries. Minutes of business unit audit committees were provided to the Committee and their meetings were attended by the external auditor, as well as senior management from the business unit (including the Business Unit Chief Executive, heads of Finance, Risk, Compliance and GwIA) and from Group Head Office. In addition, the Committee Chair meets in person or telephonically with the chairs of each of the Material Subsidiary audit committees, usually on a quarterly basis. The Chair has also attended one of each of the Material Subsidiary audit committee meetings since his appointment to enhance his understanding of how they operate.</p> <p>An assessment of the business unit audit committees was completed and the outcomes reported to the Committee and to the business unit audit committees in February 2018. The assessment was supported by local teams from GwIA and considered whether each of the committees fulfilled the responsibilities documented in their terms of reference. The evaluation also considered attendance rates by audit committee members and evidence of the audit committees' coverage of key business unit issues, as well as the appropriate escalation of concerns to the Committee. The evaluation concluded that the audit committees operated in accordance with their terms of reference.</p>
Business unit model terms of reference	<p>The Committee approved the Group's standard terms of reference for the Material Subsidiary and other business unit audit committees, which were updated to reflect changes in the Committee's own responsibilities to align them with best practice. These were adopted by the business unit audit committees, with minor variations to address local regulations or the particular requirements of the business where necessary.</p> <p>The Committee also reviewed the membership of the Material Subsidiary audit committees.</p>
<b>Second line oversight</b> <b>Compliance, financial crime prevention, whistleblowing</b>	
Regular reporting from the Compliance function	<p>Regular updates were provided to the Committee by the Group Regulatory and Government Affairs Director and the Group Compliance Director. The reports kept the Committee apprised of key compliance activities, issues and controls, including progress against the 2017 Compliance Plan, the outcome of compliance monitoring activities across the Group and the effectiveness of business units' compliance activities.</p>
Compliance Plan and focus for 2018	<p>The Committee considered and approved the 2018 Group Compliance Plan. The strategic focus of the Plan in 2018 will be on enhancing the assurance framework, building on work undertaken in 2017. Group Compliance will also continue to drive forward capabilities within the team and wider compliance community, carrying out activities to maintain oversight of the top risks identified.</p>
Financial crime prevention	<p>The Committee received the Money Laundering Reporting Officer's report which assessed the operation and effectiveness of the Group's systems and controls in relation to managing financial crime risks.</p> <p>As part of its responsibility for the oversight of financial crime prevention, the Committee received updates on Anti-bribery and Corruption and Anti-money Laundering, Sanctions and Fraud procedures. The Risk Committee was updated on risk assessments of anti-bribery and corruption and fraud prevention, during the year, which informed the update provided to the Committee in early 2018.</p>

## Committee reports continued

### Key matters considered during the year continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
Whistleblowing	<p>In 2016 Prudential launched a Group-wide whistleblowing programme ('Speak Out'). The programme captures and comprehensively records matters raised through the Group's confidential reporting process.</p> <p>Throughout the year the Committee received regular updates on matters raised through the programme and on actions taken to address them. The Committee also reviewed the arrangements for the monitoring and reporting of whistleblowing activities to ensure they continue to comply with regulatory requirements and governance best practice. The procedures were refreshed during the year and the Chair communicated the enhanced protocols to the chairs of each of the Material Subsidiary audit committees. The Committee and the Chair also spent time privately with the Group Resilience Director to ensure cases were being appropriately followed up.</p> <p>The role of the whistleblowing champion, for the purpose of the Senior Insurance Managers Regime, is carried out by the chair of the audit committee of Prudential Assurance Company (PAC), who is an independent non-executive director of PAC and is supported by the PAC audit committee. The terms of reference for each Material Subsidiary audit committee provides for them to ensure Speak Out arrangements are in place for those business units. The Committee was also updated on arrangements for promoting awareness of the Speak Out policy, including computer based training tailored for each business unit, and the distribution of communications across the Group.</p> <p>At Group level, the Chair of the Audit Committee is responsible for oversight of whistleblowing activities across the whole of the Group.</p>
<b>Internal control</b> Internal control and risk management systems	<p>The Committee is responsible for reporting and making recommendations to the Board on the effectiveness of Group-wide internal control and risk management systems.</p> <p>The Committee considered the outcome of the annual review of the systems of internal control and risk management. The report considered all material controls, including financial, operational and compliance controls, risk management systems and the adequacy of the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions. The review identified a number of areas for improvement and the necessary actions have been or are being taken.</p> <p>Having considered the review, the Committee made recommendations to the Board regarding the ongoing process for identifying, evaluating and managing the significant risks faced by the Group, noting that it had been in place throughout the period and confirming that the systems remain effective.</p> <p>The Board's statement regarding effectiveness of these systems can be found on page 100.</p>
<b>Governance</b> Group Governance Framework	<p>The Group Governance Manual sets out the policies and procedures by which the Group operates within its framework of internal governance, taking into account relevant statutory and regulatory matters. Used as a platform for mandating specific ways of working across the Group, each business unit attests annually to compliance with:</p> <ul style="list-style-type: none"> <li>— Mandatory requirements set out in Group-wide policies, including matters which must be reported to the Group functions; and</li> <li>— Matters requiring prior approval from those parties with delegated authority.</li> </ul> <p>The Committee reviewed the results of the Group Governance Manual annual content review and the results of the year end certification of compliance with Group Governance Manual requirements for the year ended 31 December 2017.</p>
Committee effectiveness	<p>A review of the Committee's activities was conducted against applicable regulation and codes of conduct. The results of this assessment were provided to the Committee alongside the outcome of the part of the annual Board evaluation relating to the Committee.</p>

## Risk Committee report

### Dear Shareholder

As Chairman of the Risk Committee, I am pleased to report on the Committee's activities and focus during 2017.

The Committee assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite and limits, risk strategy, and risk culture. We also oversee and advise the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's Business Plan. The Committee reviews the Group Risk Framework and recommends changes to it for approval by the Board, to ensure that it remains effective in identifying and managing the risks faced by the Group.

We work closely with the Audit Committee to ensure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, I work with Mr Law to agree the most appropriate Committee to consider the matter. During the year we transferred responsibility for the review of Solvency II disclosures to the Audit Committee.

The Committee received regular reports from the Group Chief Risk Officer (CRO), who is advised by the Group Executive Risk Committee (GERC). I provided feedback on the performance of the CRO to the Group Chief Executive Officer as part of the annual evaluation of the Board and its members. The Committee also received regular reports from the Group-wide Internal Audit and Compliance functions and updates from other areas of the business as needed.

During 2017, we reviewed the Group's risk policies and the aggregate limits accompanying the Group risk appetite statements. In addition, the Group's risk appetite limits were reviewed and updated where necessary to reflect changes in the Group's risk profile and the evolving regulatory and macroeconomic environments. We also reviewed the principal risks facing the Group and received regular updates on these through the course of the year. We receive regular reports from the Chief Risk Officers of our major subsidiaries. A fuller explanation of key risks facing the Group and the way in which the Group manages these is set out in the Report on the risks facing our business on pages 48 to 63.

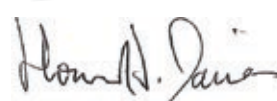
In respect of our principal risks, we continued to focus on those arising from the products we offer our customers, those inherent in our investment portfolios and the risks that arise from the operation of our businesses. We regularly reviewed the strength of our capital and liquidity positions, and the significant ongoing changes to the regulatory framework and environment. In addition, we closely monitored risks arising from the macroeconomic environment and the pace of regulatory developments across the globe.

The Committee reviewed in depth the risks arising from our business. This included a further review into the Jackson hedging programme and providing oversight of implementation of recommended actions. Reviews were also performed on asset liability management for our UK with-profit business, our China joint ventures and other aspects relating to our Asia business.

During the year we continued to oversee the work required as a result of the Group's continuing designation as a Global Systemically Important Insurer (G-SII), which included the approval of the 2017 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

The Committee reviewed the methodology and annual calibration of the Solvency II internal model, and we also oversaw the successful submission of the Group's Major Model Change application in November 2017 in respect of the model.

Cyber security remains an area of focus which saw attention from the Committee in 2017. During the year we reviewed progress achieved on the implementation of our Cyber Defence Plan. The Committee considered the Group-wide approach, and changes in governance and processes required, for compliance with the EU's General Data Protection Regulations which are due to come into force in May 2018. The Group also prepared its first environmental, social and governance report in 2017 with the Committee reviewing the risk elements included in that report.



**Howard Davies**  
Chair of the Risk Committee

#### Committee members

- Howard Davies (Chair)
- Ann Godbehere (until May 2017)
- David Law (from May 2017)
- Kai Nargolwala
- Alice Schroeder (from March 2018)
- Lord Turner

#### Regular attendees

- Chairman of the Board
- Group Chief Executive
- Group Chief Risk Officer
- Chief Financial Officer
- Group Regulatory and Government Relations Director
- Group General Counsel and Company Secretary
- Director of Group-wide Internal Audit

**Number of meetings in 2017: Six.**  
**In addition, a joint meeting was held with the Audit Committee**

## Committee reports continued

During 2017 the Committee considered the results of a Group-wide risk culture assessment which built on the previous work of the Committee in this area. The assessment was intended to compare the Group's risk culture against best practice behaviours, identify any areas which need improvement and provide high-level industry benchmarking and peer comparison.

In August we announced the merger of two of our business units to form M&G Prudential. The Committee considered the approach for managing risks associated with the merger, and will monitor and assess these risks through 2018.

The Committee will remain focused on monitoring the Group's principal risks, including those posed by regulatory developments and macroeconomic conditions, in the context of the Group's operations as a whole and the environment in which we operate.

I meet the Material Subsidiary risk committee chairs to facilitate escalation of important matters and reporting of material issues to the Committee.

Since the year end, we welcomed Alice Schroeder as a member of the Committee with effect from 1 March 2018. Her biography is set out on page 87.

Part of my role as Chair is to consider the governance arrangements for the Committee. The Committee considers its terms of reference at least annually and in October 2017 considered proposed changes to its terms of reference. We formalised the Committee's role in considering how changes in the financial environment impact the Group's risk profile. We also refreshed our terms of reference to reflect the Committee's role in providing advice to the Remuneration Committee on risk management considerations to be applied in respect of executive remuneration.

As Chair of the Committee, I have responsibility for ensuring the Committee operates effectively. To ensure we do so and provide constructive challenge to management, I encourage open debate and contributions from all Committee members. An annual review of our effectiveness was carried out as part of the Board evaluation, described in more detail on page 94. The Committee was found to be functioning effectively.

## How the Committee spent its time during 2017

	Feb <sup>1</sup>	May	Jul	Oct	Dec
<b>Markets and Group risk updates</b>					
Group risk update	●	●	●	●	●
<b>Risk management</b>					
Group top risk identification	●				
Top risk discussions	●	●	●	●	●
Business unit specific risk matters	●	●	●	●	●
Risk assessment of Business Plan					●
Risk function effectiveness	●				
Risk culture survey				●	
Risk oversight of remuneration			●	●	●
<b>Regulatory matters</b>					
Regulatory matters	●	●	●	●	●
<b>Risk framework</b>					
Solvency II internal model development	●				●
Solvency II Major Model Change			●	●	
Group risk appetite review				●	
Risk limit updates		●			
Risk policy framework refresh	●	●	●		
Year-end E-cap results		●			
Group operation risk appetite statement	●				
Responsible investing framework		●			
<b>Governance and reporting</b>					
Material Subsidiaries updates	●	●	●	●	●
Year-end risk disclosures	●		●		
Policy compliance	●	●	●		
Own Risk and Solvency Assessment	●	●			
Governance, Risk and Compliance report	●	●	●		●
Global Systemically Important Insurer	●				
Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan				●	
Pillar 3 reporting		●			
Solvency II reporting and governance processes	●	●	●	●	●
Environmental, social and governance (ESG) reporting		●			
Committee terms of reference				●	

### Note

<sup>1</sup> Two meetings were held in February 2017.

## Committee reports continued

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### Key matters considered during the year

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<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
<b>Business Plan</b>	<p>As part of the Committee's role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed Group Risk's assessment of the Group's Business Plan, which covered a range of both financial and non-financial considerations.</p> <p>As part of the Group Risk's review of the annual Group Business Plan, Group Approved Limits were reviewed, updated and approved by the Committee.</p>
<b>Risk appetite</b>	<p>The Risk Committee is responsible for recommending the Group's overall risk appetite and tolerance to the Board.</p> <p>The Committee approved the Group Risk Appetite Statement, which sets aggregate risk limits in respect of capital requirements, earnings volatility and liquidity as well as maintaining the existing tolerance levels associated with each of these limits.</p>
<b>Risk management</b>	<p>Annually, business units must assess and certify their compliance with the Group Risk Framework and risk policies as part of the annual Group Governance Manual certification. The annual certification process for risk policies is facilitated by Group Risk and subject to oversight by the Risk Committee. In 2017, the Group Risk Framework and risk policies were subject to their annual review, with changes being approved by the Risk Committee.</p> <p>In October 2017, the Committee considered the results of a Group-wide survey on Risk Culture which provided high-level industry and peer benchmarking.</p> <p>The Risk Committee considered the results of a number of 'deep dive' reviews undertaken during 2017. These focused on risks embedded within the existing portfolio of products in our US, Asia and UK businesses.</p> <p>The Cyber Strategy and Cyber Defence Plan articulates the strategic outcomes and key deliverables relating to our cyber resilience. The Group Cyber Risk Strategy was reviewed by the Risk Committee in mid-2017. The Committee also reviewed the Cyber Defence Plan and were provided further detail around the implementation of the Cyber Strategy at the end of 2017.</p> <p>The Committee considered the Group-wide approach for compliance with GDPR regulations and received updates through the year on progress on implementation activity.</p> <p>The Committee also agreed the characteristics of an effective risk function and conducted its second annual review of risk effectiveness in May.</p>
<b>Group top risks</b>	<p>The Committee evaluated the Group's top risks, considering recommendations for promoting additional risks, expanding the scope of existing risks, and removing those risks no longer requiring particular focus from the Committee. The Committee received regular reporting on the top risks and mitigating actions over the course of the year.</p> <p>The Group Chief Risk Officer's reports also provided the Committee with regulatory updates, particularly regarding Solvency II and the Group's Internal Model; the implications of the developing global capital standards; and developments and the deliverables required as a result of the Group's designation as a Global Systemically Important Insurer (see further, opposite).</p>
<b>Solvency II and Pillar 3 reporting</b>	<p>The Committee considered the Own Risk and Solvency Assessment report based on the outcomes of the Group's Business Plan and the FY16 risk and solvency positions prior to its approval by the Board. The report was also considered in light of the results of the Group's regular stress testing.</p> <p>The Committee reviewed the methodology and annual calibration of the Solvency II internal model. The 2017 Major Model Change application was closely overseen by the Committee throughout the year and we approved the model changes as part of the submission of the application to the regulator.</p> <p>Solvency II results and associated governance processes were considered in a separate meeting held jointly with the Audit Committee.</p>

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## Key matters considered during the year continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
<b>Global Systemically Important Insurer</b>	The Financial Stability Board (FSB) announced on 21 November 2016 that the Group continues to be designated as a Global Systemically Important Insurer. In 2017, the Group was required to consider and approve updated deliverables associated with the designation. These included the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.
<b>Reverse Stress Testing</b>	Stress and scenario testing is a key risk measurement and management tool for the Group. The Reverse Stress Test exercise was carried out to confirm the Group's position as being significantly resilient to certain business failure scenarios. The report related to the Group's year end 2017 position and was submitted to the PRA.
<b>Remuneration</b>	<p>The role of the Committee with respect to the provision of advice to the Remuneration Committee on risk management considerations in respect of remuneration was formalised during the year.</p> <p>The Committee considered a plan enabling it to meet its Remuneration responsibilities and received updates on Remuneration-related matters.</p>
<b>Committee effectiveness</b>	A review of the Committee's activities was conducted against applicable regulation and codes of conduct. The results of this assessment were provided to the Committee alongside the outcome of the part of the annual Board evaluation relating to the Committee.
<b>Compliance reporting</b>	<p>The Committee received regular reporting on key compliance risks and mitigation activity, including assessments and reporting on anti-bribery and corruption customer commitments.</p> <p>The Committee also reviewed and approved a number of regulatory compliance risk-related policies.</p>

## Statutory and regulatory disclosures

### Financial reporting

The Directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 160 to 314 and the supplementary information on pages 326 to 359. It is the responsibility of the auditor to form independent opinions, based on its audit of the financial statements and its audit of the EEV basis supplementary information, and to report its opinions to the Company's shareholders and to the Company. Its opinions are given on pages 315 to 323 and page 360.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial affairs of the Company and of the Group. The criteria applied in the preparation of the financial statements are set out in the statement of Directors' responsibilities on pages 314 and 360. Company law also requires the Board to approve the Strategic report. In addition, the UK Code requires the Directors' statement to state that they consider the Annual Report and financial statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors are further required to confirm that the Strategic report includes a fair review of the development and performance of the business, with a description of the principal risks and uncertainties. Such confirmation is included in the statement of Directors' responsibilities on pages 314 and 360.

The Strategic report provides, on pages 43 and 44, a description of the Group's capital position, financing and liquidity. The risks facing the Group's business and how these are managed are discussed in the Report on the risks facing our business on pages 48 to 63.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Going concern

In accordance with the requirements of the guidance issued by the Financial Reporting Council in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' after making sufficient enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved. In support of this expectation, the Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate, are set out in the Strategic report on pages 10 to 80. The risks facing the Group's capital and liquidity positions and their sensitivities are referred to in the Strategic report on pages 48 to 63 and note II(c) 'Solvency Capital Position at 31 December 2017' within Additional Unaudited Financial Information. The Group's IFRS financial statements include the details of the Group's borrowings in Note C6 on page 257, the market risk and liquidity analysis associated with the Group's assets and liabilities can be found in Note C3.4(a) on pages 225 to 227, policyholder liability maturity profile by business units in Notes C4.1(b), (c) and (d) on pages 233, 235 to 237 respectively, cash flow details in the consolidated statement of cash flows and provisions and contingencies in Notes C11 and D2. The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2017.

### Powers of the Board

The Board may exercise all powers conferred on it by the Company's Articles and the Companies Act 2006. This includes the powers of the Company to borrow money and to mortgage or charge any of its assets (subject to the limitations set out in the Companies Act 2006 and the Company's Articles) and to give a guarantee, security or indemnity in respect of a debt or other obligation of the Company.

### Securities dealing and inside information

Prudential has adopted securities dealing rules relating to transactions by Directors on terms no less exacting than required by Appendix 10 to the HK Listing Rules and by relevant UK regulations. The Directors have complied with these rules throughout the period.

The Group has adopted an Inside Information Policy which includes guidance and procedures for the identification, dissemination and escalation of inside information as well as appropriate controls on the disclosure of such information in line with regulatory requirements. All staff are made aware of the policy and receive communications reminding them of their obligations when they work on any confidential matters in the business or are notified when the Company enters or exits a closed period.

### Requirements of Listing Rule 9.8.4

Information to be included in the annual report and accounts under Listing Rule 9.8.4 may be found as follows:

<b>Listing Rule</b>	<b>Description</b>	<b>Page</b>
9.8.4 (4)	Details of long-term incentive schemes required by Listing Rule 9.4.3	146
9.8.4 (10)	Contracts of Significance involving a Director	98

## Additional information

### US regulation and legislation

As a result of its listing on the New York Stock Exchange, the Company is required to comply with the relevant provisions of the Sarbanes-Oxley Act 2002 as they apply to foreign private issuers and has adopted procedures to ensure such compliance. In particular, in relation to Section 302 of the Sarbanes-Oxley Act 2002 which covers disclosure controls and procedures, a Disclosure Committee has been established, reporting to the Group Chief Executive, chaired by the Chief Financial Officer and comprising members of head office management. The work of the Disclosure Committee supports the Group Chief Executive and Chief Financial Officer in making the certifications regarding the effectiveness of the Group's disclosure procedures.

### Change of control

Under the agreements governing Prudential Corporation Holdings Limited's life insurance and fund management joint ventures with China International Trust & Investment Corporation (CITIC), if there is a change of control of the Company, CITIC may terminate the agreements and either (i) purchase the Company's entire interest in the joint venture or require the Company to sell its interest to a third party designated by CITIC, or (ii) require the Company to purchase all of CITIC's interest in the joint venture. The price of such purchase or sale is to be the fair value of the shares to be transferred, as determined by the auditor of the joint venture.

### Customers

The five largest customers of the Group constituted in aggregate less than 30 per cent of its total revenue from sales for each of 2017 and 2016.

## Index to principal Directors' report disclosures

Information required to be disclosed in the Directors' report may be found in the following sections:

Information	Section in Annual Report	Page number(s)
Disclosure of information to auditor	Statutory and regulatory disclosures	120
Directors in office during the year	Board of Directors	83 to 87
Corporate responsibility governance	Corporate responsibility review	64 to 80
Employment practices	Corporate responsibility review	74 to 77
Greenhouse gas emissions	Corporate responsibility review	78 and 79
Charitable donations	Corporate responsibility review	74
Political donations and expenditure	Corporate responsibility review	74
Remuneration Committee report	Directors' remuneration report	124 to 157
Directors' interests in shares	Directors' remuneration report	148
Agreements for compensation for loss of office or employment on takeover	Directors' remuneration report	151 and 152
Details of qualifying third-party indemnity provisions	Governance report	98
Internal control and risk management	Governance report	99 and 100
Powers of Directors	Governance report	120
Rules governing appointment of Directors	Governance report	98
Significant agreements impacted by a change of control	Governance report	121
Future developments of the business of the Company	Group Chief Executive's report	4 to 8
Post-balance sheet events	Note D3 of the Notes on the Group financial statements	284
Rules governing changes to the Articles of Association	Shareholder information	402
Structure of share capital, including changes during the year and restrictions on the transfer of securities, voting rights and significant shareholders	Shareholder information and Note C10 of the Notes on the Group financial statements	402 and 277
Business review	Strategic report	10 to 80
Changes in borrowings	Strategic report and Note C6 of the Notes on the Group financial statements	44 and 257
Dividend details	Strategic report	2 and 34
Financial instruments	Strategic report	48 and 63

In addition, the risk factors set out on pages 391 to 397 and the additional unaudited financial information set out on pages 362 to 390, are incorporated by reference into the Directors' report.

Signed on behalf of the Board of Directors



**Alan F Porter**  
Group General Counsel and Company Secretary  
14 March 2018



# 04

## Directors' remuneration report

	Page
Annual statement from the Chairman of the Remuneration Committee	124
Our Executive Directors' remuneration at a glance	126
Summary of the current Directors' remuneration policy	128
Annual report on remuneration	132
Supplementary information	154

This report has been prepared to comply with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, as well as the Companies Act 2006 and other related regulations.

The following sections were subject to audit: Table of 2017 and 2016 Executive Director total remuneration (the 'single figure') and related notes, salary information table in section entitled Remuneration in respect of performance in 2017, Pension entitlements, Long-term incentives awarded in 2017, Chairman and Non-executive Director remuneration in 2017, Statement of Directors' shareholdings, Outstanding share options, Recruitment arrangements and Payments to past Directors and payments for loss of office.

# Annual statement from the Chairman of the Remuneration Committee

## Dear Shareholder, I am pleased to present the Remuneration Committee's report for the year to 31 December 2017.

The Committee's report is presented in the following sections:

- 1 An 'at a glance' summary of the Group's remuneration arrangements on pages 126 and 127;
- 2 A summary of our Directors' remuneration policy on pages 128 to 131 which describes how we pay Directors. This policy was approved by shareholders at the 2017 AGM;
- 3 Our Annual report on remuneration on pages 132 to 153 which describes how the Committee applied the Directors' remuneration policy in 2017 and the decisions it has made in respect of 2018; and
- 4 Supplementary information on pages 154 to 157.

By way of preface, I would like to share the context for the key decisions the Committee took during 2017, in particular, how we rewarded the performance achieved in 2017 and the decisions relating to remuneration arrangements in 2018. I am also delighted to welcome Thomas Watjen, who joined the Committee in July 2017.

### Implementing the Directors' remuneration policy

During 2017, the Committee operated all elements of remuneration in line with the Directors' remuneration policy, which received the support of 90.7 per cent of shareholders at the AGM in May 2017. As you may recall, the new policy simplified pay arrangements by reducing the number of annual bonus measures and by offering the Chief Executive of M&G awards under a single long-term incentive plan rather than two. The policy also introduced a two-year holding period on long-term incentive awards and increased share ownership guidelines.

During late 2017 and early 2018, I corresponded with and met the majority of our major shareholders, as well as organisations that represent and advise shareholders. On behalf of the Committee, I would like to thank shareholders for their engagement.

### Rewarding 2017 performance

Prudential's executive remuneration arrangements reward the achievement of Group, business and personal targets, provided that this performance is delivered within the Company's risk framework and appetites, and that the conduct expectations of Prudential, our regulators and other stakeholders are met.

As set out in the Business review section earlier in this Annual Report, the Group delivered sustained growth in profit and cash in 2017.

Performance against business unit remittances and IFRS operating profit exceeded, or were closely aligned to, the stretching targets established by the Board. EEV new business profit delivered double digit growth, a strong result in the light of the challenges outlined in the business performance review and delivered a result approaching the Board approved targets. The Group achieved these results while maintaining appropriate levels of capital and operating within the Group's risk framework and appetites. The Committee believes that the bonuses it awarded to Executive Directors for 2017 (between 89 per cent and 100 per cent of executives' maximum opportunities) appropriately reflect this performance.

Performance in 2017 built on the momentum achieved in recent years. The Group delivered total IFRS operating profits of £12,924 million in 2015, 2016 and 2017 financial years. I am pleased to say that the continued impressive financial performance has translated into significant returns to the Company's shareholders, with £100 invested on 1 January 2015 being worth £139 on 31 December 2017.

Based on this level of total shareholder return (TSR) and strong cumulative IFRS operating profit performance over the performance period 2015 to 2017, the Committee determined that between 89.3 and 95.8 per cent of the Prudential Long Term Incentive Plan (PLTIP) awards made to Executive Directors in 2015 would vest (depending on the business unit).

The Committee continues to ensure that payments and releases reflect the performance of the business, and remains mindful of its scope to use discretion if it is not satisfied that underlying financial performance justifies the payments arithmetically suggested by the achievement of the performance conditions.

### The Group Chief Executive's total remuneration

The total 2017 remuneration or 'single figure' for the Group Chief Executive, Mike Wells, is 18 per cent higher than the total 2016 'single figure'. This chiefly reflects that a greater proportion of 2015 PLTIP awards vested than of 2014 awards, based on the Company's sustained performance and share price growth achieved over the period 1 January 2015 to 31 December 2017. 2015 was also the first year in which Mike received a PLTIP award in his capacity as Group Chief Executive. This remuneration outcome reflects Mike's exceptional leadership and personal performance.

### Changes to the executive team

As you will be aware, there have been three changes to Prudential's team of Executive Directors during 2017; Nic Nicandrou was appointed Chief Executive of Prudential Corporation Asia in July 2017 after Tony Wilkey stepped down from the Board; Mark FitzPatrick replaced Nic Nicandrou as Chief Financial Officer in July 2017 and Penny James stepped down from the Board as Group Chief Risk Officer on 30 September 2017. The Committee applied the Directors' recruitment policy and loss of office policy when determining joining and separation remuneration arrangements for these executives. The remuneration decisions arising from these changes were disclosed in stock exchange and website announcements when they took place. Further information can be found in the Recruitment arrangements and Payments to past Directors sections of this report.

### Implementation in 2018

The Committee intends to continue to operate within the current Directors' remuneration policy during 2018. In determining remuneration packages for 2018, the Remuneration Committee was mindful of the need for restraint in base salary increases. All Executive Directors received a salary increase of 2 per cent. The 2018 salary increase budgets for other employees across the Group's business units were between 2.5 per cent and 10 per cent. No changes have been made to executives' maximum opportunities under either the annual incentive or the long-term incentive plans, as we believe remuneration packages provide an appropriate balance between performance over the short and the long term.

The Committee has enhanced the Annual Incentive Plan (AIP) reporting this year, a development that I trust you find welcome. The details of the targets, ranges and results achieved for the Group financial performance measures for the 2016 and 2017 AIP bonuses are included in this Directors' remuneration report, thereby removing the one-year reporting lag previously adopted.

In response to shareholder feedback, the Committee has decided that the sustainability scorecard element of the PLTIP awards from 2018 onwards will be assessed on a sliding scale rather than on a meet or fail basis.

### UK gender pay gap

The UK business entities have recently reported their 2017 UK gender pay gap data and details can be found on [www.prudential.co.uk](http://www.prudential.co.uk). We have a policy and carry out procedures to ensure that, where men and women perform similar roles, they are paid equally. However, the

gender pay gaps demonstrate the demographic profile of the business (and the financial services sector more widely): there is a greater proportion of males in more senior and front-office roles and a greater proportion of females in more junior, support and back-office non-finance roles. All the Group's businesses are working on initiatives to increase the proportion of women in senior management and operating roles as part of the Group's strategic focus on diversity and inclusion as described in the Diversity and Inclusion Statement on our website. This important priority is reflected in the Group's reward structure as a result of the diversity measure attached to PLTIP awards granted from 2017 onwards.

I trust that you will find this report a clear account of the way in which the Committee has implemented the Directors' remuneration policy during 2017.



**Anthony Nightingale, CMG SBS JP**  
Chairman of the  
Remuneration Committee  
14 March 2018

#### Strategic priority

##### IFRS operating profit<sup>1</sup>

Prudential's primary measure of profitability and a key driver of shareholder value

CAGR<sup>4</sup> (excluding Korea): +12%

##### EEV new business profit<sup>2</sup>

A measure of the future profitability of the new business sold during the year and indicates the profitable growth of the Group

CAGR<sup>4</sup> (excluding Korea and UK bulk annuity new business profits): +15%

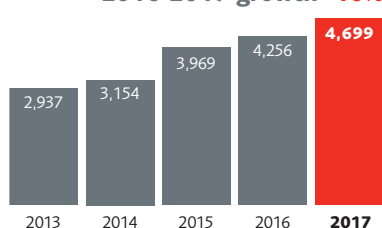
##### Business unit remittances

Cash flows across the Group balance these net remittances (which support dividend payments) with the retention of cash for profitable reinvestment

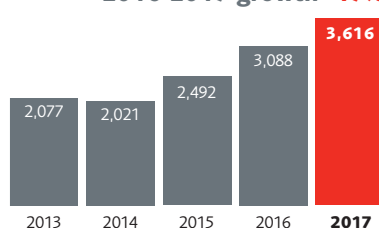
CAGR<sup>4</sup>: +7%

#### Group performance £m

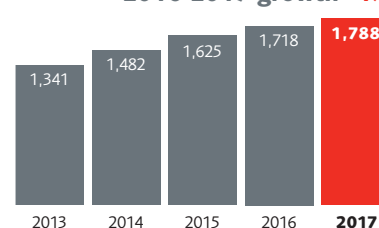
##### 2016-2017 growth<sup>3</sup> 10%



##### 2016-2017 growth<sup>3</sup> 17%



##### 2016-2017 growth<sup>3</sup> 4%



#### 2017 bonus achievement

##### Above target, approaching stretch target level

IFRS operating profit accounted for 35 per cent of Group financial bonus targets

##### Approaching target level

EEV new business profit accounted for 15 per cent of Group financial bonus targets

##### Above stretch target level

A cash flow measure was used to determine 20 per cent of the Group financial bonus targets

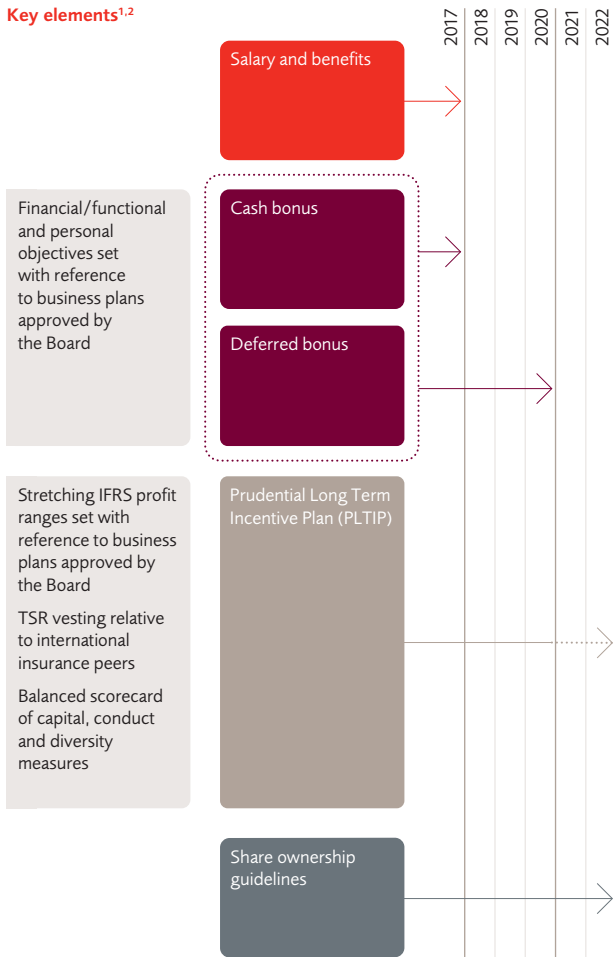
#### Notes

- As previously reported and excluding the contribution from the Korea life business for all years.
- As previously reported and excluding the contribution from the Korea life business and UK bulk annuity new business profits for all years.
- As reported.
- 2013-2017 CAGR

# Our Executive Directors' remuneration at a glance

## Our current remuneration architecture

### Key elements<sup>1,2</sup>



### Key

- Fixed pay
- Short-term variable pay
- Long-term variable pay
- Share ownership guidelines

### Notes

- 1 The Chief Executive, NABU also receives a 10% share of the Jackson bonus pool.
- 2 The Chief Executive, M&G retains separate bonus arrangements.

### Key features of the policy

Broadly aligned with pay budget for other employees

The maximum opportunity is up to 200% of salary  
40% of bonus is deferred into shares for three years  
Award is subject to malus and clawback provisions

Maximum award under the plan is 550% of salary  
Aligned with long-term business strategy and delivery of shareholder value, with vesting subject to:  
— Relative TSR;  
— Group or business unit IFRS operating profit; and  
— Balanced scorecard measures.  
Measured over three financial years from year of award with a two-year post-performance holding period  
Award is subject to malus and clawback provisions

Significant share ownership guidelines for all Executive Directors as follows:  
— 400% of salary for the Group Chief Executive  
— 250% of salary for other Executive Directors

### How we implemented the policy

Salary increase of 2% in 2017

The Group Chief Executive has a maximum bonus opportunity of 200% of salary. For other Executive Directors the maximum is 180% of salary or less  
2017 bonuses were paid based on financial performance or functional measures as well as personal objectives

Awards in 2017 were below the plan limits:  
— Group Chief Executive: 400% of salary  
— CEO, NABU: 460% of salary  
— CEO, M&G: 450% of salary  
— Other PLTIP awards were 250% of salary  
For business unit CEOs, awards vest based on TSR, business unit IFRS operating profit and balanced scorecard measures  
For other Executive Directors, awards vest based on TSR, Group IFRS operating profit and balanced scorecard measures



### What performance means for Executive Directors' pay

At Prudential, remuneration packages are designed to ensure a strong alignment between pay and performance. As you can see from the charts on page 125, sustained growth across all of our key performance metrics has delivered substantial value to our shareholders. This has been reflected in both the annual bonuses paid and the release of long-term incentive awards, as set out in the Annual report on remuneration.

In particular, the long-term incentives awarded to Executive Directors in 2015 had stretching performance conditions attached to vesting and were denominated in shares or ADRs. The value generated for shareholders through share price growth and dividends paid over the last three years is reflected in the value of the LTIP releases.

The value of these performance-related elements of remuneration is added to the fixed packages provided to Executive Directors to calculate the 2017 'single figure' of total remuneration. The total 2017 'single figure' for the Group Chief Executive is higher than the total 2016 'single figure', which is chiefly a result of the higher value of the 2015 PLTIP release. The values for the current Executive Directors who were Directors during the year are outlined in the table below:

Executive Director	Role	Fixed pay		Performance related		2017 single figure	2016 single figure
		2017 salary	Pension and benefits	2017 bonus	LTIP vesting		
Mark FitzPatrick <sup>1</sup>	Chief Financial Officer	£335,000	£102,000	£1,197,000	–	£1,634,000	N/A
John Foley	Chief Executive, M&G Prudential	£765,000	£306,000	£1,283,000	£2,378,000	£4,732,000	£4,291,000
Nic Nicandrou <sup>2</sup>	Chief Executive, PCA <sup>3</sup>	£869,000	£521,000	£1,414,000	£2,016,000	£4,820,000	£4,184,000
Anne Richards	Chief Executive, M&G	£400,000	£253,000	£2,400,000	–	£3,053,000	£3,875,000
Barry Stowe	Chairman & CEO, NABU <sup>4</sup>	£880,000	£279,000	£5,354,000	£3,109,000	£9,622,000	£7,679,000
Mike Wells	Group Chief Executive	£1,103,000	£769,000	£2,072,000	£4,758,000	£8,702,000	£7,370,000

#### Notes

- 1 Mark FitzPatrick was appointed to the Board on 17 July 2017 as Chief Financial Officer. The remuneration above was paid in respect of his service as an Executive Director.
- 2 Nic Nicandrou was appointed Chief Executive, Prudential Corporation Asia on 17 July 2017. The remuneration above was paid in respect of his service as Chief Financial Officer and Chief Executive, Prudential Corporation Asia.
- 3 PCA is an abbreviation of Prudential Corporation Asia.
- 4 NABU is an abbreviation of North American Business Unit which includes Jackson National Life and PPM America.

### Aligning 2018 pay to performance

The Remuneration Committee awarded salary increases to the Executive Directors for 2018 of 2 per cent, which was below the salary increase budget for the wider workforce. No other changes have been made as we believe remuneration packages remain strongly aligned with performance over both the short and the long term.

The resultant remuneration packages for 2018 are set out in detail in the Annual report on remuneration and summarised below:

Executive Director	Role	AIP			
		2018 salary	Maximum bonus (% salary)	Bonus deferred	PLTIP award (% salary) <sup>3</sup>
Mark FitzPatrick	Chief Financial Officer	£745,000	175%	40%	250%
John Foley	Chief Executive, M&G Prudential	£781,000	180%	40%	250%
Nic Nicandrou	Chief Executive, PCA	HK\$10,710,000	180%	40%	250%
Anne Richards <sup>1</sup>	Chief Executive, M&G	£408,000	600%	40%	450%
Barry Stowe <sup>2</sup>	Chairman & CEO, NABU	US\$1,157,000	160%	40%	460%
Mike Wells	Group Chief Executive	£1,126,000	200%	40%	400%

#### Notes

- 1 The bonus opportunity for the Chief Executive, M&G remains the lower of 0.75 per cent of M&G's IFRS operating profit or six times salary.
- 2 The Chairman & CEO, NABU will also continue to have a 10 per cent share of the Jackson bonus pool. 40 per cent of this is deferred in shares.
- 3 The PLTIP award is subject to a three-year performance period and a further two-year holding period.

## Summary of the current Directors' remuneration policy

The Company's Directors' remuneration policy was approved by shareholders at the 2017 AGM. This policy came into effect following the AGM on 18 May 2017 and is expected to apply until the 2020 AGM, when shareholders will be asked to approve a revised Directors' remuneration policy.

The pages that follow present a summary of the current Directors' remuneration policy. The complete policy can be found on our website at [www.prudential.co.uk/investors/governance-and-policies/directors-remuneration-policy](http://www.prudential.co.uk/investors/governance-and-policies/directors-remuneration-policy)

### Remuneration for Executive Directors

#### Fixed pay

<i>Element</i>	<i>Operation</i>	<i>Opportunity</i>
<b>Salary</b>	<p>The Committee reviews salaries annually, considering factors such as:</p> <ul style="list-style-type: none"> <li>— Salary increases for other employees across the Group;</li> <li>— The performance and experience of the executive;</li> <li>— The size and scope of the role;</li> <li>— Group and/or business unit financial performance;</li> <li>— Internal relativities; and</li> <li>— External factors such as economic conditions and market data.</li> </ul> <p>Market data is also reviewed so that salaries remain in a competitive range relative to each Executive Director's local market.</p>	<p>Annual salary increases for Executive Directors will normally be in line with the increases for other employees across our business units. However, there is no prescribed maximum annual increase.</p>
<b>Benefits</b>	<p>Executive Directors are offered benefits which reflect their individual circumstances and are competitive within their local market, including:</p> <ul style="list-style-type: none"> <li>— Health and wellness benefits;</li> <li>— Protection and security benefits;</li> <li>— Transport benefits;</li> <li>— Family and education benefits;</li> <li>— All employee share plans and savings plans;</li> <li>— Relocation and expatriate benefits; and</li> <li>— Reimbursed business expenses (including any tax liability) incurred when travelling overseas in performance of duties.</li> </ul>	<p>The maximum paid will be the cost to the Company of providing benefits. The cost of benefits may vary from year to year but the Committee is mindful of achieving the best value from providers.</p>
<b>Provision for an income in retirement</b>	<p>Current Executive Directors have the option to:</p> <ul style="list-style-type: none"> <li>— Receive payments into a defined contribution scheme; and/or</li> <li>— Take a cash supplement in lieu of contributions.</li> </ul> <p>Jackson's Defined Contribution Retirement Plan has a guaranteed element (6 per cent of pensionable salary) and additional contributions (up to a further 6 per cent of pensionable salary) based on the profitability of Jackson.</p>	<p>Executive Directors are entitled to receive pension contributions or a cash supplement (or combination of the two) up to a total of 25 per cent of base salary.</p> <p>In addition, the Chief Executive, Prudential Corporation Asia receives statutory contributions into the Mandatory Provident Fund.</p>

## Variable pay

<b>Element</b>	<b>Operation</b>	<b>Opportunity</b>
<b>Annual bonus</b>	<p>Currently all Executive Directors participate in the Annual Incentive Plan (AIP). AIP awards for all Executive Directors, other than the Group Chief Risk Officer, are subject to the achievement of financial and personal objectives. The Group Chief Risk Officer's performance measures are entirely based on a combination of functional and personal measures.</p> <p>Business unit chief executives either have measures of their business unit's financial performance in the AIP or they may participate in a business unit specific bonus plan. For example, the Chairman and CEO, NABU currently participates in the Jackson Senior Management Bonus Pool as well as in the AIP.</p> <p>The financial measures used for the annual bonus will typically include profit and cash flow targets and payments depend on the achievement of minimum capital thresholds. Jackson's profitability and other key financial measures determine the value of the Jackson Senior Management Bonus Pool.</p> <p>In specific circumstances, the Committee also has the power to recover all (or part of) bonuses for a period after they are awarded to executives. These clawback powers apply to the cash and deferred elements of bonuses made in respect of performance in 2015 and subsequent years.</p>	<p>The Chief Executive, M&amp;G has a bonus opportunity of the lower of six times salary or 0.75 per cent of M&amp;G's IFRS profit. For other Executive Directors the maximum AIP opportunity is up to 200 per cent of salary. Annual awards are disclosed in the relevant Annual report on remuneration.</p> <p>In addition to the AIP, the Chairman and CEO, NABU receives a 10 per cent share of the Jackson Senior Management Bonus Pool.</p>
<b>Deferred bonus shares</b>	<p>Executive Directors are required to defer a percentage (currently 40 per cent) of their total annual bonus into Prudential shares for three years. The release of awards is not subject to any further performance conditions.</p> <p>The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding deferred award in specific circumstances. From 2015, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).</p>	<p>The maximum vesting under this arrangement is 100 per cent of the original deferral plus accrued dividend shares.</p>
<b>Prudential Long Term Incentive Plan</b>	<p>Currently all Executive Directors participate in the Prudential Long Term Incentive Plan (PLTIP). The PLTIP has a three-year performance period. Vesting of outstanding awards is dependent on:</p> <ul style="list-style-type: none"> <li>— Relative total shareholder return; and</li> <li>— Group IFRS operating profit; or</li> <li>— Business unit IFRS operating profit; and</li> <li>— Balanced scorecard of sustainability measures.</li> </ul> <p>The performance measures attached to each award are dependent on the role of the executive and will be disclosed in the relevant Annual report on remuneration. The Committee has the authority to apply a malus adjustment to all, or a portion of, an outstanding award in specific circumstances. For 2015 and subsequent years, the Committee also has the power to recover all, or a portion of, amounts already paid in specific circumstances and within a defined timeframe (clawback).</p> <p>From 2017, PLTIP awards are usually subject to an additional two-year holding period following the end of the three-year performance period.</p>	<p>The value of shares awarded under the PLTIP (in any given financial year) may not exceed 550 per cent of the executive's annual basic salary.</p> <p>Awards made in a particular year are usually significantly below this limit and are disclosed in the relevant Annual report on remuneration. The Committee would consult with major shareholders before increasing award levels during the life of this policy.</p> <p>The maximum vesting under the PLTIP is 100 per cent of the original share award plus accrued dividend shares.</p>

## Share ownership guidelines

The guidelines for share ownership are as follows:

- 400 per cent of salary for the Group Chief Executive; and
- 250 per cent of salary for other Executive Directors.

Executives have five years from the implementation of these increased guidelines (or from the date of their appointment, if later) to build this level of ownership.

# Summary of the current Directors' remuneration policy continued

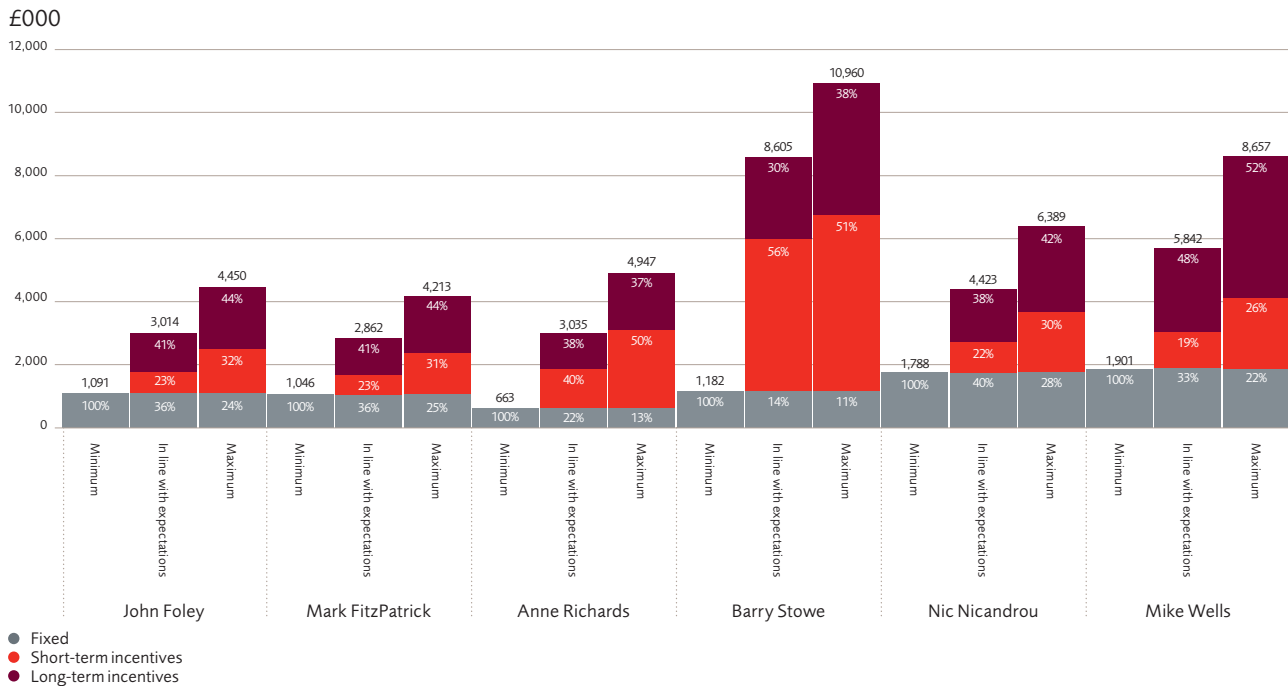
The full policy sets out the Committee's powers in respect of Executive Directors joining or leaving the Board, where a change in performance conditions is appropriate or in the case of corporate transactions (such as a takeover, merger or rights issue). The policy also describes legacy long-term incentive plans under which some Executive Directors continue to hold awards.

## Scenarios of total remuneration

The chart below provides an illustration of the future total remuneration for each Executive Director in respect of their remuneration opportunity for 2018. Three scenarios of potential outcome are provided based on underlying assumptions shown in the notes to the chart.

The Committee is satisfied that the maximum potential remuneration of the Executive Directors is appropriate. Prudential's policy is to offer Executive Directors remuneration which reflects the performance and experience of the executive, internal relativities and Group and/or business unit financial performance. In order for the maximum total remuneration to be payable:

- Financial performance must exceed the Group and/or business unit's stretching business plan;
- Relative TSR must be at or above the upper quartile relative to the peer group;
- The sustainability scorecard, aligned to the Group's strategic priorities, must be fully satisfied;
- Functional and personal performance objectives must be fully met; and
- Performance must be achieved within the Group's and business units' risk framework and appetites.



### Note

The scenarios in the chart above have been calculated on the following assumptions:

	Minimum	In line with expectations	Maximum
Fixed pay	Base salary at 1 January 2018. Pension allowance at 1 January 2018. Estimated value of benefits based on amounts paid in 2017. Nic Nicandrou and Barry Stowe are paid in HK\$ and US\$ respectively and figures have been converted to GBP for the purposes of this chart.		
Annual bonus	No bonus paid.	50% of maximum AIP. Jackson bonus pool at the average of the last three years.	100% of maximum AIP. Jackson bonus pool at highest of the last three years.
Long-term incentives (excludes share price growth and dividends)	No PLTIP vesting.	Vesting of 62.5% of award under PLTIP (midway between threshold and maximum).	100% of award under PLTIP.

## Remuneration for Non-executive Directors and the Chairman

### Non-executive Directors

<b>Fees</b>	<b>Benefits</b>	<b>Share ownership guidelines</b>
<p>All Non-executive Directors receive a basic fee for their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of committees or acting as the Senior Independent Director. Fees are paid to Non-executive Directors in cash. Fees are reviewed annually by the Board with any changes effective from 1 July.</p> <p>Non-executive Directors are not eligible to participate in annual bonus plans or long-term incentive plans.</p> <p>If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.</p>	<p>Travel and expenses for Non-executive Directors are incurred in the normal course of business, for example, in relation to attendance at Board and Committee meetings. The costs associated with these are all met by the Company.</p>	<p>It is expected that Non-executive Directors will hold shares with a value equivalent to one times the annual basic fee (excluding additional fees for chairmanship and membership of any committees).</p> <p>Non-executive Directors are expected to attain this level of share ownership within three years of their appointment.</p>

### Chairman

<p>The Chairman receives an annual fee for the performance of the role. On appointment, the fee may be fixed for a specified period of time. Fees will otherwise be reviewed annually with any changes effective from 1 July.</p> <p>The Chairman is not eligible to participate in annual bonus plans or long-term incentive plans.</p>	<p>The Chairman may be offered benefits including:</p> <ul style="list-style-type: none"> <li>— Health and wellness benefits;</li> <li>— Protection and security benefits;</li> <li>— Transport benefits;</li> <li>— Reimbursement of business expenses (and any associated tax liabilities) incurred when travelling overseas in performance of duties; and</li> <li>— Relocation and expatriate benefits (where appropriate).</li> </ul> <p>The Chairman is not eligible to receive a pension allowance or to participate in the Group's employee pension schemes.</p>	<p>The Chairman has a share ownership guideline of one times his annual fee and is expected to attain this level of share ownership within five years of the date of his appointment.</p>
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In setting the Directors' remuneration policy, the Committee considers a range of factors including:

#### Conditions elsewhere in the Group

Across the Group, remuneration is reviewed regularly with the intention that all employees are paid appropriately in the context of their local market and given their individual skills, experience and performance. Each business unit's salary increase budget is set with reference to local market conditions. The Remuneration Committee considers salary increase budgets in each business unit when determining the salaries of Executive Directors.

Prudential does not consult with employees when setting the Directors' remuneration policy. Prudential is a global organisation with employees and agents in multiple business units and geographies. As such, there are practical challenges associated with consulting with employees directly on this matter. As many employees are also shareholders, they are able to participate in binding votes on the Directors' remuneration policy and annual votes on the Annual report on remuneration.

#### Shareholder views

The Remuneration Committee and the Company undertake regular consultation with key institutional investors on the remuneration policy and its implementation. This engagement is led by the Remuneration Committee Chair and is an integral part of the Company's investor relations programme. The Committee is grateful to shareholders for their feedback and takes this into account when determining executive remuneration.

# Annual report on remuneration

The Board has established Audit, Remuneration, Risk and Nomination & Governance Committees as principal standing committees of the Board. These committees form a key element of the Group governance framework.

## The operation of the Remuneration Committee

### Members

Anthony Nightingale (the Chair of the Committee)  
Kai Nargolwala  
Philip Remnant  
Thomas Watjen (member since 11 July 2017)

### Role and responsibility

The role and responsibilities of the Committee are set out in its terms of reference, which are reviewed by the Committee and approved by the Board on an annual basis, and which can be found on the Company's website. The Committee's role is to assist the Board in meeting its responsibilities regarding the determination, implementation and operation of the overall remuneration policy for the Group, including the remuneration of the Chairman and Executive Directors, as well as overseeing the remuneration arrangements of other staff within its purview.

The principal responsibilities of the Committee are:

- Determining and recommending to the Board for approval, the framework and policy for the remuneration of the Chairman, Executive Directors and other members of the Group Executive Committee;
- Approving the design of performance-related pay schemes operated for the Executive Directors and other members of the Group Executive Committee, and determining the targets and individual payouts under such schemes;
- Reviewing the design and development of all share plans requiring approval by the Board and/or the Company's shareholders;
- Approving the share ownership guidelines for the Chairman and Executive Directors and other members of the Group Executive Committee, and monitoring compliance;
- Reviewing and approving individual packages for the Executive Directors and other members of the Group Executive Committee, and the fees of the Chairman and the Non-executive Directors of the Group's material subsidiaries;
- Reviewing and approving packages to be offered to newly recruited Executive Directors and other members of the Group Executive Committee;
- Reviewing and approving the structure and quantum of any severance package for Executive Directors and other members of the Group Executive Committee;
- Ensuring the process for establishing remuneration policy is transparent and consistent with the Group's risk framework and appetites, encouraging strong risk management and solvency management practices and taking account of remuneration practices across the Group;
- Monitoring the remuneration and risk management implications of remuneration of senior executives across the Group, other selected roles and those with an opportunity to earn in excess of £1 million in a particular year; and
- Overseeing the implementation of the Group remuneration policy for those roles within scope of the specific arrangements referred to in Article 275 of Solvency II.

An annual review of the Committee's effectiveness was carried out as part of the Board evaluation, as described in more detail on page 94. The Committee was found to be functioning effectively.

In 2017, the Committee met six times. Key activities at each meeting are shown in the table below:

<b>Meeting</b>	<b>Key activities</b>
<b>February 2017</b>	Approve the 2016 Directors' remuneration report; consider 2016 bonus awards for Executive Directors; consider vesting of the long-term incentive awards with a performance period ending on 31 December 2016; approve 2017 long-term incentive awards, performance measures and plan documentation; and note an update on regulation affecting remuneration.
<b>March 2017</b>	Confirm 2016 annual bonuses and the vesting of long-term incentive awards with a performance period ending on 31 December 2016, in light of audited financial results.
<b>May 2017</b>	Approve remuneration arrangements for a new Executive Director and an Executive Director whose role changed and separation arrangements for an Executive Director who stepped down from the Board.
<b>June 2017</b>	Consider performance for outstanding long-term incentive awards, based on the half-year results; review the remuneration of senior executives across the Group, employees with a remuneration opportunity over £1 million per annum and employees within the scope of the Solvency II remuneration rules; review progress towards share ownership guidelines by the Chairman, Executive Directors and other Group Executive Committee members; approve the Chairman's fees; and note an update on regulation affecting remuneration.
<b>September 2017</b>	Review proposed 2018 remuneration arrangements ahead of consultation with shareholders; approve the Solvency II Remuneration Policy Statement; and review the Remuneration Committee's terms of reference.
<b>December 2017</b>	Review level of participation in the Company's all-employee share plans and dilution levels resulting from the Company's share plans; approve Group Executive Committee members' 2018 salaries and incentive opportunities in light of initial shareholder feedback; consider the annual bonus and long-term incentive measures and targets to be used in 2018; review an initial draft of the 2017 Directors' remuneration report; approve the Committee's 2018 work plan; approve the fees for independent non-executive directors of the material subsidiaries; and note an update on regulation affecting remuneration.

The Chairman and the Group Chief Executive attend meetings by invitation. The Committee also had the benefit of advice from:

- Group Chief Risk Officer;
- Chief Financial Officer;
- Group Human Resources Director; and
- Director of Group Reward and Employee Relations.

Individuals are never present when their own remuneration is discussed and the Committee is always careful to manage potential conflicts of interest when receiving views from Executive Directors or senior management about executive remuneration proposals.

During 2017, Deloitte LLP was the independent adviser to the Committee. Deloitte was appointed by the Committee in 2011 following a competitive tender process. As part of this process, the Committee considered the services that Deloitte provided to Prudential and its competitors, as well as other potential conflicts of interest. Deloitte is a member of the Remuneration Consultants' Group and voluntarily operates under their code of conduct when providing advice on executive remuneration in the UK. Deloitte regularly meet with the Chair of the Committee without management present. The Committee is comfortable that the Deloitte engagement partner and team providing remuneration advice to the Committee do not have connections with Prudential that may impair their independence and objectivity. The total fees paid to Deloitte for the provision of independent advice to the Committee in 2017 were £56,000 charged on a time and materials basis. During 2017, Deloitte gave Prudential management advice on remuneration, as well as providing guidance on capital optimisation, digital and technology, taxation, internal audit, real estate, global mobility and other financial, risk and regulatory matters. Remuneration advice is provided by an entirely separate team within Deloitte.

In addition, management received external advice and data from a number of other providers. This included market data and legal counsel. This advice, and these services, are not considered to be material.

During the year, the Company has complied with the appropriate provisions of the UK Corporate Governance Code regarding Directors' remuneration.

# Annual report on remuneration continued

**Table of 2017 Executive Director total remuneration (the 'single figure')**

£000's	2017 salary	2017 taxable benefits <sup>†</sup>	2017 total bonus	Of which:				Total 2017 remuneration the 'single figure' <sup>¶</sup>
				Amount paid in cash	Amount deferred into Prudential shares <sup>†</sup>	2017 LTIP releases <sup>‡</sup>	2017 pension benefits <sup>§</sup>	
Mark FitzPatrick <sup>1</sup>	335	18	1,197	718	479	–	84	1,634
John Foley	765	115	1,283	770	513	2,378	191	4,732
Penny James <sup>2</sup>	478	81	–	–	–	–	119	678
Nic Nicandrou <sup>3,8</sup>	869	303	1,414	848	566	2,016	218	4,820
Anne Richards <sup>4</sup>	400	153	2,400	1,440	960	–	100	3,053
Barry Stowe <sup>5,8</sup>	880	59	5,354	3,212	2,141	3,109	220	9,622
Mike Wells <sup>6</sup>	1,103	493	2,072	1,243	829	4,758	276	8,702
Tony Wilkey <sup>7</sup>	490	456	787	472	315	2,952	123	4,808
<b>Total</b>	<b>5,320</b>	<b>1,678</b>	<b>14,507</b>	<b>8,703</b>	<b>5,803</b>	<b>15,213</b>	<b>1,331</b>	<b>38,049</b>

\* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

† The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

‡ In line with the regulations, the estimated value of PLTIP releases in 2017 has been calculated based on the average share/ADR price over the last three months of 2017 (£18.52/\$49.12).

The actual value of PLTIPs, based on the share price on the date awards are released, will be shown in the 2018 report.

§ 2017 pension benefits include cash supplements for pension purposes and contributions into DC schemes as outlined on page 142.

¶ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 - The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

## Notes

1 Mark FitzPatrick was appointed to the Board on 17 July 2017.

2 Penny James stepped down from the Board on 30 September 2017. The remuneration above was paid in respect of her service as an Executive Director.

3 To facilitate Nic Nicandrou's relocation to Hong Kong to take up his new role as Chief Executive, Prudential Corporation Asia, Nic's benefits include relocation support being temporary accommodation of £126,000 and tax and immigration advice of £33,000.

4 To facilitate her appointment as Chief Executive, M&G, in 2016 Anne Richards's benefits include travel costs from Anne's home in Edinburgh to London of £15,000.

5 Barry Stowe's bonus figure excludes a contribution of £16,200 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2017 pension benefits.

6 To facilitate his appointment as Group Chief Executive and move to the UK in 2015, Mike Wells's benefits include £340,000 to cover mortgage interest and £37,000 to cover home leave flights.

7 Tony Wilkey stepped down from the Board on 17 July 2017. The remuneration above was paid in respect of his service as an Executive Director. His benefits include £148,000 for housing, £24,000 for home leave flights and a £235,000 Executive Director Location Allowance. Two of the LTIP releases relate to his previous role, prior to his service as an Executive Director.

8 Barry Stowe, Tony Wilkey and, following his appointment as Chief Executive, Prudential Corporation Asia, Nic Nicandrou are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.



## Table of 2016 Executive Director total remuneration (the 'single figure')

£000's	2016 salary	2016 taxable benefits*	2016 total bonus	Of which:					Total 2016 remuneration the 'single figure' <sup>¶</sup>
				Amount paid in cash	Amount deferred into Prudential shares <sup>†</sup>	2016 LTIP releases <sup>‡</sup>	2016 Other payments	2016 pension benefits <sup>§</sup>	
John Foley <sup>1</sup>	714	134	1,271	763	508	1,993	–	179	4,291
Penny James	606	83	962	577	385	388	–	152	2,191
Michael McLintock <sup>2</sup>	173	70	920	552	368	2,252	–	43	3,458
Nic Nicandrou <sup>3</sup>	711	361	1,236	742	494	1,698	–	178	4,184
Anne Richards <sup>4</sup>	228	82	1,368	821	547	–	2,140	57	3,875
Barry Stowe <sup>5,8</sup>	820	46	5,229	3,137	2,092	1,379	–	205	7,679
Mike Wells <sup>6</sup>	1,081	893	2,151	1,291	860	2,975	–	270	7,370
Tony Wilkey <sup>7,8</sup>	845	828	1,440	864	576	1,707	–	213	5,033
<b>Total</b>	<b>5,178</b>	<b>2,497</b>	<b>14,577</b>	<b>8,747</b>	<b>5,830</b>	<b>12,392</b>	<b>2,140</b>	<b>1,297</b>	<b>38,081</b>

\* Benefits include (where provided) the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation/expatriate benefits.

† The deferred part of the bonus is subject to malus and clawback in accordance with the malus and clawback policies but no further conditions.

‡ In line with the regulations, the estimated value of PLTIP releases in 2016 has been recalculated based on the actual share/ADR price on the date awards are released, being £16.63/\$41.58.

§ 2016 pension benefits include cash supplements for pension purposes and contributions into DC schemes.

¶ Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of Statutory Instrument 2013 No. 1981 - The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

### Notes

- John Foley was appointed to the Board on 19 January 2016. The remuneration above was paid in respect of his service as an Executive Director, other than the LTIP releases which related to his previous role.
- Michael McLintock stepped down from the Board on 6 June 2016. The remuneration above was paid in respect of his service as an Executive Director.
- Nic Nicandrou's benefits relate primarily to relocation support under a legacy relocation clause in his contract, being £156,892 to cover taxes due on stamp duty paid in 2015.
- Anne Richards was appointed to the Board on 7 June 2016. The remuneration above was paid in respect of her service as an Executive Director. In order to facilitate Anne's appointment as Chief Executive, M&G, the Company agreed to replace the deferred bonus awards she forfeited on leaving Aberdeen Asset Management. The terms of the replacement award are designed to replicate those of the forfeited awards and the value is set out in the 'Other payments' column. In addition, to support Anne's appointment as Chief Executive, M&G, the Company pays for accommodation in London and travel from Anne's home in Edinburgh to London totalling £45,493 and the value is included in the 'taxable benefits' column.
- Barry Stowe's bonus figure excludes a contribution of £11,738 from a profit sharing plan which has been made into a 401(k) retirement plan in respect of his role as Chairman & CEO, NABU. This is included under 2016 pension benefits.
- To facilitate his move to the UK, Mike Wells's benefits include relocation support including £330,680 to cover taxes due on stamp duty paid in 2015 and £339,624 to cover mortgage interest. In addition, an amount of £497,748 was paid by the Company to meet a payment on account for US tax on these benefits which, as the tax will be payable in the UK, under the UK and US double tax treaty this amount will ultimately be refunded. Mike's benefits figure has been amended to include an additional £20,000 of home leave flights taken in 2016.
- Tony Wilkey's benefits include costs of £260,917 for housing and a £413,663 Executive Director Location Allowance. The LTIP releases relate to his previous role, prior to his service as an Executive Director.
- Barry Stowe and Tony Wilkey are paid in their local currency and exchange rate fluctuations will therefore impact the reported sterling value.

# Annual report on remuneration continued

## Remuneration in respect of performance in 2017

### Base salary

Executive Directors' salaries were reviewed in 2016 with changes effective from 1 January 2017. When the Committee took these decisions it considered:

- The salary increases awarded to other employees, which vary across our business units, reflecting local market conditions;
- The performance and experience of each Executive Director;
- The relative size of each Executive Director's role; and
- The performance of the Group.

As reported last year, after careful consideration by the Committee, all Executive Directors, other than the Group Chief Risk Officer, received a salary increase of 2 per cent. The Group Chief Risk Officer received a salary increase of 5 per cent. The 2017 salary increase budgets for other employees across our business units were between 2.5 per cent and 6 per cent. No changes were made to Executive Directors' maximum opportunities under either the annual incentive or the long-term incentive plans.

To provide context for the market review, information was also drawn from the following market reference points:

<b>Executive</b>	<b>Role</b>	<b>Benchmark(s) used to assess remuneration</b>
John Foley	Chief Executive, M&G Prudential	— FTSE 40 — International insurance companies
Penny James	Group Chief Risk Officer	— FTSE 40
Nic Nicandrou	Chief Financial Officer	— FTSE 40
Mark FitzPatrick		— International insurance companies
Anne Richards	Chief Executive, M&G	— McLagan UK Investment Management Survey — International insurance companies
Barry Stowe	Chairman & CEO, NABU	— Towers Watson US Financial Services Survey — LOMA US Insurance Survey
Mike Wells	Group Chief Executive	— FTSE 40 — International Insurance Companies
Tony Wilkey	Chief Executive, Prudential Corporation Asia	— Towers Watson Asian Insurance Survey
Nic Nicandrou		

<b>Executive Director</b>	<b>2016 salary</b>	<b>2017 salary</b>
Mark FitzPatrick <sup>1</sup>	N/A	£730,000
John Foley <sup>2</sup>	£750,000	£765,000
Penny James <sup>3</sup>	£606,000	£637,000
Nic Nicandrou <sup>4</sup>	£711,000	HK\$10,500,000
Anne Richards <sup>5</sup>	£400,000	£400,000
Barry Stowe	US\$1,111,000	US\$1,134,000
Mike Wells	£1,081,000	£1,103,000
Tony Wilkey <sup>6</sup>	HK\$8,890,000	HK\$9,070,000

### Notes

- <sup>1</sup> Mark FitzPatrick was appointed Chief Financial Officer on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Financial Officer.
- <sup>2</sup> John Foley was appointed Chief Executive, UK and Europe on 19 January 2016. The annualised 2016 salary above was paid in respect of his service as Chief Executive, UK and Europe.
- <sup>3</sup> Penny James stepped down from the Board on 30 September 2017.
- <sup>4</sup> Nic Nicandrou was appointed Chief Executive, Prudential Corporation Asia on 17 July 2017. The annualised 2017 salary above was paid in respect of his service as Chief Executive, Prudential Corporation Asia.
- <sup>5</sup> Anne Richards was appointed Chief Executive, M&G on 7 June 2016. The annualised 2016 salary above was paid in respect of her service as Chief Executive, M&G.
- <sup>6</sup> Tony Wilkey stepped down from the Board on 17 July 2017.

## Annual bonus

### 2017 annual bonus opportunities

Executive Directors' bonus opportunities, the weighting of performance measures for 2017 and the proportion of annual bonuses deferred are set out below:

Executive Director	Maximum AIP opportunity (% of salary)	Deferral requirement	Weighting of measures		
			Group financial measures	Business unit financial/functional measures	Personal objectives
Mark FitzPatrick <sup>1</sup>	175%	40% of total bonus	80%	–	20%
John Foley	180%	40% of total bonus	20%	60%	20%
Penny James <sup>2</sup>	160%	40% of total bonus	–	100% (functional/personal)	–
Nic Nicandrou <sup>3</sup>	180%	40% of total bonus	20%	60%	20%
Anne Richards	600%	40% of total bonus	20%	60%	20%
Barry Stowe <sup>4</sup>	160%	40% of total bonus	80%	–	20%
Mike Wells	200%	40% of total bonus	80%	–	20%
Tony Wilkey <sup>5</sup>	180%	40% of total bonus	20%	60%	20%

#### Notes

- 1 Mark FitzPatrick was appointed to the Board on 17 July 2017. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director. This was not pro-rated for the portion of the year for which he was an Executive Director, as Mark did not receive a 2017 bonus from his previous employer.
- 2 Penny James stepped down from the Board on 30 September 2017. The maximum bonus opportunity shown represents her annual opportunity as an Executive Director but no bonus was paid.
- 3 Nic Nicandrou was Chief Financial Officer until his appointment as Chief Executive, Prudential Corporation Asia on 17 July 2017. The maximum bonus opportunity and performance measures shown represents his annual opportunity in his current role – this was pro-rated for the portion of the year he was in this role and he also received a pro-rated AIP for the portion of the year he was Chief Financial Officer.
- 4 Barry Stowe also receives 10 per cent of the Jackson bonus pool.
- 5 Tony Wilkey stepped down from the Board on 17 July 2017. The maximum bonus opportunity shown represents his annual opportunity as an Executive Director. This was pro-rated for the portion of the year for which he was an Executive Director.

### 2017 AIP performance measures and achievement

#### Target-setting process

For the financial AIP metrics, the performance ranges are set by the Remuneration Committee prior to, or at the beginning of, the performance period based on the annual business plans approved by the Board. These reflect the ambitions of the Group and business units, in the context of anticipated market conditions.

The Committee seeks advice from the Group Risk Committee on risk management considerations to be applied to remuneration architecture and performance measures to ensure risk management culture and conduct is appropriately reflected in the design and operation of Executive Directors' remuneration.

In 2017, the AIP performance measures were simplified from seven to four measures and Executive Directors' 2017 bonuses were determined by the achievement of IFRS operating profit, operating free surplus, NBP EEV profit and cash flow, which are aligned to the Group's growth and cash generation focus. This reflected the Committee's objective to simplify the AIP metrics.

As part of the continuing implementation of Solvency II, the weightings of the Group Chief Risk Officer's AIP performance targets (with effect from 2017) were changed so that the entire AIP outcome relates to a combination of functional and personal measures.

#### Financial performance

The Committee reviewed performance against the performance ranges at its meeting in March 2018. Of the bonus performance metrics, the maximum targets were all exceeded other than Group IFRS operating profit, Savings & Retirement Solutions cash flow and IFRS operating profit, and Prudential Corporation Asia operating free surplus generated and IFRS operating profit which were between plan and maximum and Group NBP EEV profit and Prudential Corporation Asia NBP EEV profit which were between threshold and plan.

# Annual report on remuneration continued

The Group Remuneration Committee considered a report from the interim Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the 2017 results were achieved within the Group's and business units' risk framework and appetite. The interim Group Chief Risk Officer also considered the effectiveness of risk management and internal controls, and specific actions taken to mitigate risks, particularly where these may be at the expense of profits or sales. The interim Group Chief Risk Officer's recommendations were taken into account by the Committee when determining AIP outcomes for Executive Directors.

The level of performance required for threshold, plan and maximum payment against the Group's 2017 Annual Incentive Plan financial measures and the results achieved are set out below.

2017 AIP measure	Weighting	Threshold (£m)	Plan (£m)	Maximum (£m)	Achievement (£m)
Group IFRS operating profit	35%	3,967	4,464	4,785	4,699
Operating free surplus generated	30%	3,090	3,398	3,628	3,640
Group Cash flow	20%	(284)	16	136	159
NBP EEV profit	15%	3,339	3,697	3,836	3,616

The Board believe that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

## Personal performance

As set out in our Directors' remuneration policy, a proportion of the annual bonus for each Executive Director is based on the achievement of personal objectives including:

- The executive meeting their individual conduct and customer measures;
- The executive's contribution to Group strategy as a member of the Board; and
- Specific goals related to the business or function for which they are responsible and progress on major projects.

At its meeting in March 2018, the Committee concluded that there had been a high level of performance against these 2017 objectives, as summarised below:

Business	Overview of objectives	2017 highlights
Group Head Office	Objectives included developing relationships with stakeholders, enhancing external publications, continued development of executive bench strength and leveraging digital opportunities	<ul style="list-style-type: none"> <li>— Highly commended in the 2017 Building Public Trust in Corporate Reporting Awards in the category for tax reporting;</li> <li>— Developed executive bench strength and succession and emerging talent to leverage high potential talent across the Group as demonstrated by the appointment of the former Group Chief Financial Officer as Chief Executive, Prudential Corporation Asia; and</li> <li>— Won the Insurance category of Managements Today's Britain's Most Admired Companies' award.</li> </ul>
Prudential Corporation Asia and Africa	Objectives included leveraging digital opportunities, developing distribution channels, continued development of executive bench strength, developing Eastspring and growing the Group's Africa footprint	<ul style="list-style-type: none"> <li>— Delivered various customer experience enhancements including askPRU, an insurance chatbot with real time information, and roll-out of myDNA, our DNA-based health and nutrition programme that enables customers to take a more personalised approach to their wellbeing;</li> <li>— Launched PRU Fintegrate, an initiative that enables us to collaborate with fintech start-ups;</li> <li>— Eastspring was chosen by IFC, part of the World Bank, as its first Asian partner in a programme that mobilises funds from institutional investors into projects in emerging markets; and</li> <li>— Entered Nigeria, our fifth African market, by acquiring a majority stake in Zenith Life and formed exclusive bancassurance partnerships with Zenith Bank plc.</li> </ul>

Business	Overview of objectives	2017 highlights
North American Business Unit	Objectives included leveraging digital opportunities, developing our product range and focusing on core business areas	<ul style="list-style-type: none"> <li>— Launched Jackson's The Financial Freedom Studio which aims to make retirement and investment choices easier to understand;</li> <li>— Introduced 'Retire on Purpose', a new platform with a focus on thoughtful life planning as a crucial first step towards creating a comprehensive financial plan;</li> <li>— Launched Perspective Advisory II and Elite Access Advisory to serve advisers and distributors with a preference for advisory products, and launched Private Wealth Shield, entering the Private Wealth and Trust Market; and</li> <li>— Through our subsidiary National Planning Holdings, sold our US independent broker-dealer network in order to focus on our core business.</li> </ul>
M&G Prudential	Objectives included the merger and successful integration of the Prudential UK and M&G businesses, leveraging digital opportunities, developing our range of products and investment offerings, and continued development of executive bench strength	<ul style="list-style-type: none"> <li>— Announced the merger of M&amp;G and Prudential UK to offer customers and distributors wider and better choice and achieve cost savings;</li> <li>— Entered a 10-year partnership with Tata Consultancy Services, a global leader in IT, business process and digital services, to enhance service for our UK savings and retirement customers;</li> <li>— Introduced myM&amp;G, a new online direct-to-consumer investing platform, with lower fund charges; and</li> <li>— Launched our first open-ended infrastructure fund of global listed infrastructure companies, the M&amp;G ESG Global High Yield Fund and six further M&amp;G funds on the new SICAV platform.</li> </ul>

### 2017 Annual Incentive Plan payments

On the basis of the strong performance of the Group and its business units, and the Committee's assessment of each Executive Director's personal performance, the Committee determined the following 2017 AIP payments:

Executive Director	Role	2017 salary <sup>1</sup>	Maximum 2017 AIP	2017 AIP payment (% of maximum)	2017 AIP payment
Mark FitzPatrick <sup>2</sup>	Chief Financial Officer	£730,000	175%	94%	£1,197,000
John Foley	Chief Executive, M&G Prudential	£765,000	180%	93%	£1,283,000
Penny James <sup>3</sup>	Group Chief Risk Officer	£637,000	160%	0%	£nil
Nic Nicandrou <sup>4</sup>	Chief Financial Officer/ Chief Executive, PCA	£726,000/ HK\$10,500,000	175%/ 180%		
Anne Richards	Chief Executive, M&G	£400,000	600%	90%	£1,414,000
Barry Stowe <sup>4</sup>	Chairman & CEO, NABU	US\$1,134,000	160%	100%	£2,400,000
Mike Wells	Group Chief Executive	£1,103,000	200%	94%	£2,072,000
Tony Wilkey <sup>5</sup>	Chief Executive, PCA	HK\$9,070,000	180%	89%	£787,000

#### Notes

- 1 At 31 December 2017 or on stepping down from the Board if earlier.
- 2 As Mark FitzPatrick did not receive a bonus from his previous employer for 2017, his bonus was not pro-rated.
- 3 Penny James stepped down from the Board on 30 September 2017 and no bonus was paid.
- 4 In addition to the Annual Incentive Plan, Barry Stowe also participates in the Jackson bonus pool (see below).
- 5 Tony Wilkey stepped down from the Board on 17 July 2017. The AIP shown above was paid in respect of his service as an Executive Director.

### 2017 Jackson bonus pool

In 2017, the Jackson bonus pool was determined by Jackson National Life Insurance's profitability, capital adequacy, remittances to Group, in-force experience, ECap solvency ratio and credit rating. Across all these measures Jackson delivered strong performance, and more detail on that performance is set out on pages 24 to 27. As a result of this performance the Committee determined that Barry Stowe's share of the bonus pool was US\$5,199,580.

# Annual report on remuneration continued

## Disclosure of targets and achievement for the 2016 Annual Incentive Plan

The level of performance required for threshold, plan and maximum payment against the Group's 2016 Annual Incentive Plan financial measures and the results achieved are set out below.

2016 AIP measure	Weighting	Threshold (£m)	Plan (£m)	Maximum (£m)	Achievement (£m)
Group cash flow	10%	(357)	(224)	(195)	35
Operating free surplus generated	25%	2,719	3,244	3,394	3,566
Group Solvency II surplus	7.5%	9,400	11,900	12,900	12,483
Group ECap surplus	7.5%	15,551	18,551	20,051	22,470
NBP EEV profit	5%	2,674	2,949	3,009	3,088
In-force EEV profit	10%	1,682	1,912	2,002	2,409
Group IFRS operating profit	35%	3,483	3,733	3,908	4,256

The Board believe that, due to the commercial sensitivity of the business unit targets, disclosing further details of these targets may damage the competitive position of the Group.

## Update on performance against targets for awards made in 2016 and 2017 under the Prudential Long Term Incentive Plan

As at 31 December 2017, Prudential's TSR performance during the period 1 January 2016 and 31 December 2017 was ranked between median and upper quartile and during the period 1 January 2017 to 31 December 2017 was ranked in the upper quartile.

Prudential's Group IFRS operating profit performance between 1 January 2016 to 31 December 2017 was 5 per cent above the stretch target established for 2016 PLTIP awards. The Group's IFRS achievement between 1 January 2017 and 31 December 2017 was 2 per cent above the stretch target adopted for 2017 PLTIP award.

Between 1 January 2017 and 31 December 2017, the Group also made good progress towards meeting the measures which form part of the sustainability scorecard used for 2017 to 2019 PLTIP awards:

- **Capital measure** As at 31 December 2017, the Group's Solvency II operating capital generation was above the plan level.
- **Conduct measure** During 2017, there were no significant conduct/culture/governance issues that resulted in significant capital add-ons or material fines.
- **Diversity measure** As at 31 December 2017, 25 per cent of our Leadership Team was female. This represented good progress towards the target that 27 per cent of the Leadership Team be female by the end of 2019.

## Remuneration in respect of performance periods ending in 2017

### Long-term incentive plans with performance periods ending on 31 December 2017

Our long-term incentive plans have stretching performance conditions that are aligned to the strategic priorities of the Group. In deciding the portion of the awards to be released, the Committee considered actual financial results against these performance targets. The Committee also reviewed underlying Company performance to ensure vesting levels were appropriate, including an assessment of whether results were achieved within the Group and business units' risk framework and appetite. The Directors' remuneration policy contains further details of the design of Prudential's long-term incentive plans.

### Prudential Long Term Incentive Plan (PLTIP)

In 2015, all Executive Directors were granted awards under the PLTIP. The awards were subject to challenging targets. The weightings of these measures are detailed in the table below.

Executive Director	Weighting of measures	
	Group TSR <sup>1</sup>	IFRS operating profit (Group or business unit) <sup>2</sup>
John Foley	50%	50% (business unit target)
Barry Stowe	50%	50% (business unit target)
Mike Wells	50%	50% (business unit and Group target)
Tony Wilkey	50%	50% (business unit target)
All other Executive Directors	50%	50% (Group target)

#### Notes

<sup>1</sup> Group TSR is measured on a ranked basis over three years relative to peers.

<sup>2</sup> IFRS operating profit is measured on a cumulative basis over three years.

<sup>3</sup> Mike Wells, Barry Stowe and Tony Wilkey received additional awards following their change in role in 2015 and these awards had performance measures reflective of their new roles.

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group increasing to full vesting for performance within the upper quartile. TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison. The peer group for the 2015 awards is:

Aegon	Aflac	AIA	AIG
Allianz	Aviva	AXA	Generali
Legal & General	Manulife	MetLife	Munich Re
Old Mutual	Prudential Financial	Standard Life	Sun Life Financial
Swiss Re	Zurich Insurance Group		

Following the merger of Standard Life and Aberdeen Asset Management during the year, the Remuneration Committee determined that Standard Life would be retained in the peer group for the pre-merger period and the combined entity would be included in the peer group from the date of the merger for all outstanding PLTIP awards.

Prudential's TSR performance during the performance period (1 January 2015 to 31 December 2017) was between the median and upper quartile of the peer group (ranked 6th). The portion of the awards related to TSR that therefore vested was 91.67 per cent.

Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS profit set at the start of the performance period increasing to full vesting for performance at or above the stretch level. The table below illustrates the cumulative performance achieved over 2015 to 2017 compared to the Group targets set in 2015:

Group	2015-17 cumulative targets			2015-17 cumulative achievement	Overall vesting
	Threshold	Plan	Maximum		
IFRS operating profit	£9,872m	£10,969m	£12,066m	£12,962m	100%

The Committee determined that the cumulative IFRS operating profit target established for the PLTIP should be expressed using exchange rates consistent with the reported disclosures. All the individual business units exceeded their stretch performance target and achieved 100 per cent vesting, other than Asia which exceeded plan performance, but not the stretch target, and therefore vested at 87 per cent.

Details of business unit IFRS targets have not been disclosed as the Committee considers that these are commercially sensitive and disclosure of targets at such a granular level would put the Company at a disadvantage compared to its competitors. The Committee will keep this disclosure policy under review based on whether, in its view, disclosure would compromise the Company's competitive position.

#### **Prudential Corporation Asia Long Term Incentive Plan (PCA LTIP)**

Tony Wilkey holds PCA LTIP awards granted in 2014 and 2015. These PCA LTIP awards were granted before Tony was appointed to the Board. One of these awards, granted in 2014, had performance conditions and one of these awards, granted in 2015, had no performance conditions. Details of the performance conditions attached to the 2014 award and performance achieved are set out below:

Performance measure	Weighting	Performance target (to be achieved by 31 December 2017)	Performance achieved by 31 December 2017
Prudential Corporation Asia IFRS operating profit	50%	£1,826m	£1,855m
Prudential Corporation Asia operating free surplus generated	50%	£900m	£1,029m

# Annual report on remuneration continued

## LTIP vesting

The Committee considered a report from the interim Group Chief Risk Officer which had been approved by the Group Risk Committee. This report confirmed that the financial results were achieved within the Group's and business units' risk framework and appetite. On the basis of this report, and the performance of the Group and its business units described above, the Committee determined the vesting of each Executive Director's LTIP awards as set out below.

Executive Director	Maximum value of award at full vesting <sup>1</sup>	Percentage of the LTIP award vesting	Number of shares/ADRs vesting <sup>2</sup>	Value of shares vesting <sup>1</sup>
John Foley	£2,481,758	95.8%	128,376	£2,377,524
Nic Nicandrou	£2,104,050	95.8%	108,838	£2,015,680
Barry Stowe	£3,405,243	95.8% and 89.3%	81,591	£3,109,433
Mike Wells	£4,967,070	95.8%	124,861	£4,758,453
Tony Wilkey	£3,058,597	100% and 89.3%	159,373	£2,951,588

### Notes

1 The share price used to calculate the value of the LTIP awards with performance periods which ended on 31 December 2017 and vest in 2018 was the average share price/ADR price for the three months up to 31 December 2017, being £18.52/\$49.12.

2 The number of shares vesting includes accrued dividend shares.

3 Mike Wells, Barry Stowe and Tony Wilkey received additional awards following their change of role in 2015, and these awards had performance measures reflective of their new roles.

## Pension entitlements

Pension provisions in 2017 were:

Executive Director	2017 pension arrangement	Life assurance provision
Barry Stowe	Pension supplement of 25 per cent of salary, part of which is paid as a contribution to an approved US retirement plan.	Two times salary
Tony Wilkey/Nic Nicandrou	Pension supplement in lieu of pension of 25 per cent of salary and a HK\$18,000 payment to the Hong Kong Mandatory Provident Fund.	Eight times salary
UK-based executives	Pension contribution to defined contribution plan and/or pension supplement in lieu of pension of 25 per cent of salary.	Up to four times salary plus a dependants' pension

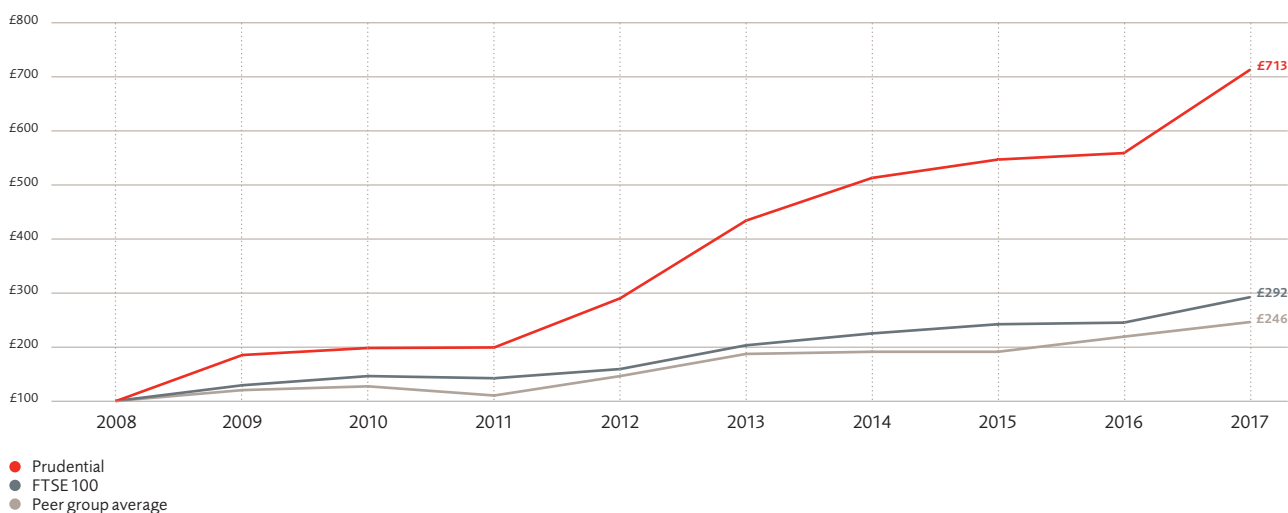
John Foley previously participated in a non-contributory defined benefit scheme that was open at the time he joined the Company. The scheme provided an accrual of 1/60ths of final pensionable earnings for each year of pensionable service. The normal retirement date is 60 years of age and during 2017 John elected to commence payment of his pension. John took a tax free cash sum of £103,551.06 and from March 2017 received pension payments equivalent to £15,533 per annum, which increased to £15,636 per annum from 1 April 2017, in line with the Consumer Prices Index. The pension will continue to be subject to statutory increases in line with the Consumer Prices Index.



### Performance graph and table

The chart below illustrates the TSR performance of Prudential, the FTSE 100 and the peer group of international insurers used to benchmark the Company's performance for the purposes of the PLTIP.

#### Prudential TSR vs. FTSE 100 and peer group average – total return per cent over nine years to December 2017



#### Note

The peer group average represents the average TSR performance of the peer group used for 2017 PLTIP awards (excluding companies not listed at the start of the period).

The information in the table below shows the total remuneration for the Group Chief Executive over the same period:

£000	2009	2009	2010	2011	2012	2013	2014	2015	2015	2016	2017
Group Chief Executive	M Tucker <sup>1</sup>	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam	T Thiam <sup>2</sup>	M Wells	M Wells	M Wells
Salary, pension and benefits	1,013	286	1,189	1,241	1,373	1,411	1,458	613	1,992	2,244	1,872
Annual bonus payment	841	354	1,570	1,570	2,000	2,056	2,122	704	1,244	2,151	2,072
(As % of maximum)	(92%)	(90%)	(97%)	(97%)	(100%)	(99.8%)	(100%)	(77.3%)	(99.7%)	(99.5%)	(94%)
LTIP vesting	1,575	–	2,534	2,528	6,160	5,235	9,838	3,702	4,290	2,975	4,758
(As % of maximum)	(100%)	–	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(70.8%)	(95.8%)
Other payments	308	–	–	–	–	–	–	–	–	–	–
Group Chief Executive 'single figure' of total remuneration	3,737	640	5,293	5,339	9,533	8,702	13,418	5,019	7,526	7,370	8,702

#### Notes

- 1 Mark Tucker left the Company on 30 September 2009. Tidjane Thiam became Group Chief Executive on 1 October 2009. The figures shown for Tidjane Thiam's remuneration in 2009 relate only to his service as Group Chief Executive.
- 2 Tidjane Thiam left the Company on 31 May 2015. Mike Wells became Group Chief Executive on 1 June 2015. The figures shown for Mike Wells's remuneration in 2015 relate only to his service as Group Chief Executive.

# Annual report on remuneration continued

## Percentage change in remuneration

The table below sets out how the change in remuneration for the Group Chief Executive between 2016 and 2017 compared to a wider employee comparator group:

	Salary	Benefits	Bonus
Group Chief Executive	2%	(44.8)%	(3.7)%
All UK employees	3%	3.3%	6.3%

The employee comparator group used for the purpose of this analysis is all UK employees. This includes employees in the UK insurance operations business, M&G and Group Head Office, and reflects the average change in pay for employees employed in both 2016 and 2017. The salary increase includes uplifts made through the annual salary review, as well as any additional changes in the year; for example to reflect promotions or role changes. The UK workforce has been chosen as the most appropriate comparator group as it reflects the economic environment where the Group Chief Executive is employed.

## Relative importance of spend on pay

The table below sets out the amounts payable in respect of 2016 and 2017 on all employee pay and dividends:

	2016	2017	Percentage change
All employee pay (£m) <sup>1</sup>	1,885	1,985	5%
Dividends (£m)	1,122	1,216	8.4%

### Note

<sup>1</sup> All employee pay as taken from note B2.1 to the financial statements.

## Long-term incentives awarded in 2017

### 2017 share-based long-term incentive awards

As detailed in the Directors' remuneration policy, approved by shareholders at the 2017 AGM, all long-term incentive awards made to Executive Directors in 2017 were granted under the PLTIP. The vesting of these awards will depend on:

- Relative TSR (25 per cent of award);
- Group or business unit IFRS operating profit (50 per cent of award); and
- Balanced scorecard of strategic measures (25 per cent of award).

As part of the continuing implementation of Solvency II, the weightings of the Group Chief Risk Officer's LTIP performance targets (with effect from 2017) were different to the other Executive Directors and were:

- Relative TSR (50 per cent of award);
- Group IFRS operating profit (20 per cent of award); and
- Balanced scorecard of strategic measures (30 per cent of award).

Under the Group TSR measure, 25 per cent of the award vests for TSR at the median of the peer group, increasing to full vesting for performance within the upper quartile. Following a comprehensive review of the peer group, supported by the Remuneration Committee's independent adviser and the Group's Investor Relations team, three companies (Aflac, Munich Re and Swiss Re) were removed for the 2017 awards because their products and geographic footprints are insufficiently similar to those of the Group.

TSR is measured on a local currency basis since this has the benefit of simplicity and directness of comparison.

The peer group for the 2017 awards is:

Aegon	AIA	AIG	Allianz
Aviva	AXA	Generali	Legal & General
Manulife	MetLife	Old Mutual	Prudential Financial
Standard Life Aberdeen	Sun Life Financial	Zurich Insurance Group	

Under the IFRS measure, 25 per cent of the award vests for meeting the threshold IFRS operating profit, set at the start of the performance period increasing to full vesting for performance at or above the stretch level.

Under the balanced scorecard, performance is assessed for each of the four measures, at the end of the three-year performance period. Each of the measures has equal weighting and the 2017 measures are set out below.

<b>Capital measure:</b>	Cumulative three-year ECap Group operating capital generation relative to plan, less cost of capital (based on the capital position at the start of the performance period).
<b>Vesting basis:</b>	100 per cent vesting for achieving plan, otherwise 0 per cent vesting. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
<b>Capital measure:</b>	Cumulative three-year Solvency II Group operating capital generation (as captured in published disclosures) relative to plan.
<b>Vesting basis:</b>	100 per cent vesting for achieving plan, otherwise 0 per cent vesting. The plan figure for this metric will be published in the Annual Report for the final year of the performance period.
<b>Conduct measure:</b>	Through appropriate management action, ensure there are no significant conduct/culture/governance issues that result in significant capital add-ons or material fines.
<b>Vesting basis:</b>	100 per cent for achieving the Group's expectations, otherwise 0 per cent vesting.
<b>Diversity measure:</b>	Percentage of the Leadership Team that is female at the end of 2019. The target for this metric will be based on progress towards the goal that the Company set when it signed the Women in Finance Charter, specifically that 30 per cent of our Leadership Team will be female by the end of 2021. For this portion of PLTIP awards made in 2017 to vest, at least 27 per cent of our Leadership Team must be female by the end of 2019.
<b>Vesting basis:</b>	100 per cent vesting for achieving the target, otherwise 0 per cent vesting.

The table below shows the awards made to Executive Directors in 2017 under share-based long-term incentive plans and the performance conditions attached to these awards:

Executive Director	Role	Number of shares or ADRs subject to award*	Face value of award†	Percentage of awards released for achieving threshold targets‡	End of performance period	Weighting of performance conditions				
						Group TSR	Balanced scorecard	IFRS operating profit		
						Group	Asia	US	UK	M&G
Mark FitzPatrick	Chief Financial Officer	101,360	£1,824,987	25%	31 December 2019	25%	25%	50%		
John Foley	Chief Executive, M&G Prudential	114,177	£1,912,465	25%	31 December 2019	25%	25%		50%	
Penny James	Group Chief Risk Officer	95,073	£1,592,473	25%	31 December 2019	50%	30%	20%		
Nic Nicandrou	Chief Financial Officer/ Chief Executive, PCA	108,357	£1,814,980	25%	31 December 2019	25%	25%	50%		
Anne Richards	Chief Executive, M&G	107,461	£1,799,972	25%	31 December 2019	25%	25%			50%
Barry Stowe	Chairman & CEO, NABU	123,845	\$5,216,351	25%	31 December 2019	25%	25%		50%	
Mike Wells	Group Chief Executive	263,401	£4,411,967	25%	31 December 2019	25%	25%	50%		
Tony Wilkey	Chief Executive, PCA	139,340	£2,333,945	25%	31 December 2019	25%	25%		50%	

\* Awards over shares were awarded to all Executive Directors other than Barry Stowe whose awards were over ADRs.

† Awards for Executive Directors are calculated based on the average share price over the three dealing days prior to the grant date, being £16.75 and an ADR price of \$42.12 for all Executive Directors other than Mark FitzPatrick and £18.005 for Mark FitzPatrick.

‡ The 2017 balanced scorecard is assessed on a binary basis. The percentage of awards released for achieving maximum targets is 100 per cent.

## Annual report on remuneration continued

### Buy-out award

As reported in the 2016 Annual report on remuneration, in order to facilitate Anne Richards's appointment as Chief Executive, M&G, the Company agreed to replace the deferred bonus awards she forfeited on leaving Aberdeen Asset Management. The terms of the replacement award were designed to replicate those of the forfeited awards and are therefore not subject to performance conditions and will accrue dividend equivalents. These awards entitle Anne to receive a cash amount equal to the market value of the specified notional number of Prudential shares on the date of exercise, less an award price of 5p per share. The outstanding awards and the exercise periods are detailed below.

Exercise period	Number of notional shares
1 December 2018 to 1 January 2019	25,078
1 December 2019 to 1 January 2020	25,078
1 December 2020 to 1 January 2021	13,426

In December 2017, Anne exercised the second tranche of this replacement award. The gross value of the award exercised (which included dividend equivalents) was £747,671 and Anne used the net of tax value of £395,174 to buy 21,408 Prudential shares. Anne has committed to use the net of tax value of all her outstanding awards to buy Prudential shares.

This buy-out award was made under rule 9.4.2 of the UKLA Listing Rules as the award could not be effected under any of the Company's existing incentive plans. Anne is the sole participant in this arrangement and no further awards will be made to Anne under the arrangement.

## Chairman and Non-executive Director remuneration in 2017

### Chairman's fees

The Chairman's fee was reviewed by the Committee during 2017 and increased by 2 per cent to £734,000 with effect from 1 July 2017 in order to reflect inflation.

### Non-executive Directors' fees

The Non-executive Directors' fees were reviewed by the Board during 2017 and the basic fee was increased by 2 per cent to £97,000. None of the fees for additional duties were increased:

Annual fees	From 1 July 2016 (£)	From 1 July 2017 (£)
Basic fee	95,000	97,000
Additional fees:		
Audit Committee Chair	75,000	75,000
Audit Committee member	27,500	27,500
Remuneration Committee Chair	60,000	60,000
Remuneration Committee member	27,500	27,500
Risk Committee Chair	75,000	75,000
Risk Committee member	27,500	27,500
Nomination Committee member	10,000	10,000
Senior Independent Director	50,000	50,000

#### Note

If, in a particular year, the number of meetings is materially greater than usual, the Company may determine that the provision of additional fees is fair and reasonable.

The resulting fees paid to the Chairman and Non-executive Directors are:

£000s	2017 fees	2016 fees	2017 taxable benefits*	2016 taxable benefits*	Total 2017 remuneration: the 'single figure' <sup>†</sup>	Total 2016 remuneration: the 'single figure' <sup>†</sup>
<b>Chairman</b>						
Paul Manduca	727	710	122	121	849	831
<b>Non-executive Directors</b>						
Howard Davies	209	202	–	–	209	202
Ann Godbehere	79	205	–	–	79	205
Alistair Johnston <sup>1</sup>	–	47	–	–	–	47
David Law	176	122	–	–	176	122
Kai Nargolwala <sup>2</sup>	151	150	–	–	151	150
Anthony Nightingale	166	165	–	–	166	165
Philip Remnant <sup>3</sup>	211	210	–	–	211	210
Alice Schroeder	124	122	–	–	124	122
Lord Turner	140	122	–	–	140	122
Thomas Watjen <sup>4</sup>	59	–	–	–	59	–
<b>Total</b>	<b>2,042</b>	<b>2,055</b>	<b>122</b>	<b>121</b>	<b>2,164</b>	<b>2,176</b>

\* Benefits include the cost of providing the use of a car and driver, medical insurance and security arrangements.

† Each remuneration element is rounded to the nearest £1,000 and totals are the sum of these rounded figures. Total remuneration is calculated using the methodology prescribed by Schedule 8 of the Companies Act. The Chairman and Non-executive Directors are not entitled to participate in annual bonus plans or long-term incentive plans.

#### Notes

- Alistair Johnston stepped down from the Board on 19 May 2016.
- Kai Nargolwala also received an annual fee of £250,000 (payable in HK\$) in respect of his non-executive chairmanship of Prudential Corporation Asia Limited with effect from 1 February 2016.
- Philip Remnant also received an annual fee of £250,000 in respect of his non-executive chairmanship of M&G Group Limited with effect from 1 April 2016.
- Thomas Watjen joined the Board on 11 July 2017.

# Annual report on remuneration continued

## Statement of Directors' shareholdings

The interests of Directors in ordinary shares of the Company are set out below. 'Beneficial interest' includes shares owned outright, shares acquired under the Share Incentive Plan (SIP) and deferred annual incentive awards, detailed in the 'Supplementary information' section. It is only these shares that count towards the share ownership guidelines.

	1 January 2017 (or on date of appointment)		During 2017		31 December 2017 (or on date of retirement)		Share ownership guidelines	
	Total beneficial interest (number of shares)	Number of shares acquired	Number of shares disposed	Total beneficial interest* (number of shares)	Number of shares subject to performance conditions†	Total interest in shares	Share ownership guidelines‡ (% of salary/fee)	Beneficial interest as a percentage of basic salary/basic fees§
<b>Chairman</b>								
Paul Manduca	42,500	–	–	42,500	–	42,500	100%	108%
<b>Executive Directors</b>								
Mark FitzPatrick <sup>1</sup>	–	81	–	81	101,360	101,441	250%	0%
John Foley	249,965	154,770	154,619	250,116	381,325	631,441	250%	596%
Penny James <sup>2</sup>	41,572	47,365	13,376	75,561	236,049	311,610	N/A	N/A
Nic Nicandrou	304,138	134,338	146,167	292,309	349,310	641,619	250%	510%
Anne Richards	31,439	54,922	–	86,361	153,367	239,728	250%	394%
Barry Stowe <sup>3</sup>	265,878	227,178	210,710	282,346	686,398	968,744	250%	585%
Mike Wells <sup>4</sup>	544,534	243,195	125,106	662,623	835,625	1,498,248	400%	1095%
Tony Wilkey <sup>5</sup>	120,528	101,428	147,537	74,419	454,170	528,589	N/A	N/A
<b>Non-executive Directors</b>								
Howard Davies	9,049	229	–	9,278	–	9,278	100%	178%
Ann Godbehere <sup>6</sup>	15,914	–	–	15,914	–	15,914	N/A	N/A
David Law	6,904	2,162	–	9,066	–	9,066	100%	174%
Kaikhushru Nargolwala	70,000	–	–	70,000	–	70,000	100%	1343%
Anthony Nightingale	30,000	20,000	–	50,000	–	50,000	100%	959%
Philip Remnant	6,916	–	–	6,916	–	6,916	100%	133%
Alice Schroeder <sup>7</sup>	8,500	–	–	8,500	–	8,500	100%	163%
Lord Turner	5,500	1,052	–	6,552	–	6,552	100%	126%
Tom Watjen <sup>8</sup>	–	5,500	–	5,500	–	5,500	100%	106%

\* There were no changes of Directors' interests in ordinary shares between 31 December 2017 and 13 March 2018, with the exception of the UK-based Executive Directors due to their participation in the monthly SIP. Mark FitzPatrick acquired a further 31 shares in the SIP, John Foley acquired a further 30 shares in the SIP and Mike Wells acquired a further 30 shares in the SIP during this period.

† Further information on share awards subject to performance conditions are detailed in the 'share-based long-term incentive awards' section of the Supplementary information.

‡ Holding requirement of the Articles of Association (2,500 ordinary shares) must be obtained within one year of appointment to the Board. The increased guidelines for Executive Directors were introduced with effect from January 2013 and increased again in 2017. Executive Directors have five years from this date (or date of joining or role change, if later) to reach the enhanced guideline. The guideline for Non-executive Directors was introduced on 1 July 2011. Non-executive Directors have three years from their date of joining to reach the guideline. Where applicable, all Directors are in compliance with the share ownership guideline.

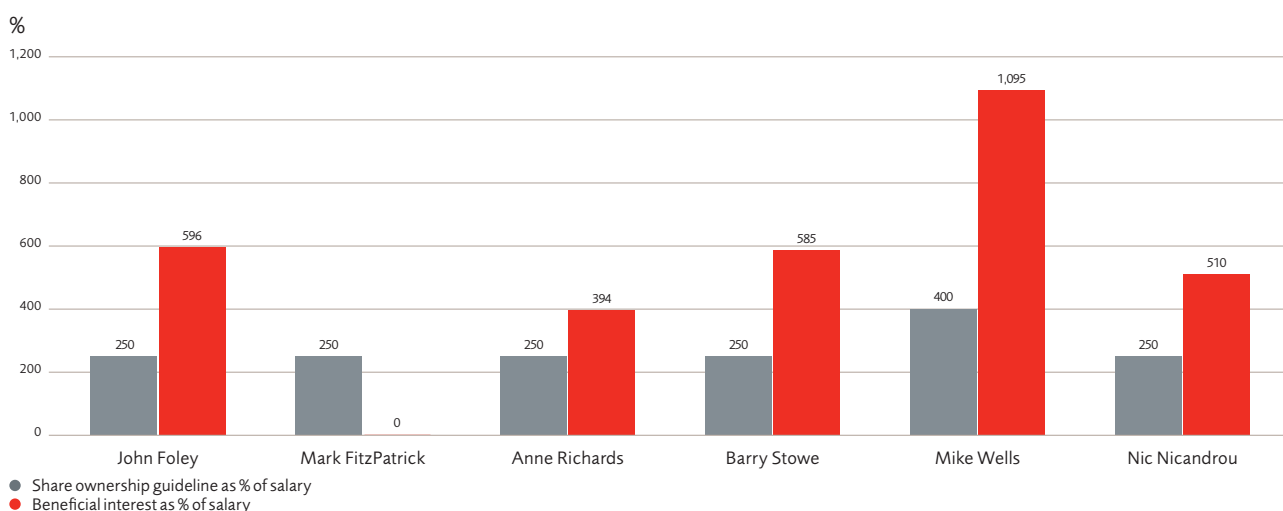
§ Based on the average closing price for the six months to 31 December 2017 (£18.23).

The Company and its Directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, Directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Stock Exchange of Hong Kong Limited any disclosure of interests notified to it in the United Kingdom.

### Notes

- 1 Mark FitzPatrick was appointed to the Board on 17 July 2017. Total interest in shares is shown from this date.
- 2 Penny James stepped down from the Board on 30 September 2017. Total interest in shares is shown as at this date.
- 3 For the 1 January 2017 figure, Barry Stowe's beneficial interest in shares is made up of 132,939 ADRs (representing 265,878 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 31 December 2017 figure the beneficial interest in shares is made up of 141,173 ADRs (representing 282,346 ordinary shares).
- 4 For the 1 January 2017 figure, Mike Wells' beneficial interest in shares is made up of 218,576 ADRs (representing 437,152 ordinary shares) and 107,382 ordinary shares. For the 31 December 2017 figure his beneficial interest in shares is made up of 249,811 ADRs (representing 499,622 ordinary shares) and 163,001 ordinary shares.
- 5 Tony Wilkey stepped down from the Board on 17 July 2017. Total interest in shares is shown as at this date.
- 6 Ann Godbehere stepped down from the Board on 18 May 2017. Total interest in shares is shown as at this date.
- 7 For the 1 January 2017 and 31 December 2017 figure, Alice Schroeder's beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares).
- 8 Tom Watjen was appointed to the Board on 11 July 2017. Total interest in shares is shown from this date. For the 31 December 2017 figure, Tom Watjen's beneficial interest in shares is made up of 2,750 ADRs (representing 5,500 ordinary shares).
- 9 James Turner, who joined the Board as Group Chief Risk Officer on 1 March 2018, has a total beneficial interest in 9,701 shares, awards over 82,976 shares subject to performance conditions and an option over 1,237 shares in the UK Prudential Savings-Related Share Option Scheme. There was no change in his share interests between 1 and 13 March 2018.

The bar chart below illustrates the Executive Directors' shareholding as a percentage of base salary versus the share ownership guideline.



### Outstanding share options

The following table sets out the share options held by the Executive Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period. Anne Richards holds options under her buy-out arrangement, details of which were set out on page 146.

	Date of grant	Exercise price (pence)	Market price at 31 Dec 2017 (pence)	Exercise period		Number of options							
				Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period	
Mark FitzPatrick	21 Sep 17	1,455	1,905.5	01 Dec 22	31 May 23	–	2,061	–	–	–	–	–	2,061
John Foley	23 Sep 14	1,155	1,905.5	01 Dec 17	31 May 18	779	–	779	–	–	–	–	–
John Foley	21 Sep 16	1,104	1,905.5	01 Dec 19	31 May 20	815	–	–	–	–	–	–	815
John Foley	21 Sep 17	1,455	1,905.5	01 Dec 20	31 May 21	–	618	–	–	–	–	–	618
Penny James	22 Sep 15	1,111	1,905.5	01 Dec 18	31 May 19	1,620	–	–	–	–	–	–	1,620
Nic Nicandrou	23 Sep 14	1,155	1,905.5	01 Dec 19	31 May 20	1,311	–	–	–	–	–	–	1,311
Nic Nicandrou	21 Sep 16	1,104	1,905.5	01 Dec 21	31 May 22	1,358	–	–	–	–	–	–	1,358
Anne Richards	21 Sep 16	1,104	1,905.5	01 Dec 19	31 May 20	1,630	–	–	–	–	–	–	1,630
Mike Wells	22 Sep 15	1,111	1,905.5	01 Dec 18	31 May 19	1,620	–	–	–	–	–	–	1,620

#### Notes

- 1 A gain of £5,139.84 was made by Directors in 2017 on the exercise of SAYE options.
- 2 No price was paid for the award of any option.
- 3 The highest and lowest closing share prices during 2017 were £19.15 and £15.32 respectively.
- 4 All exercise prices are shown to the nearest pence.
- 5 Penny James participated in the plan during her time as an Executive Director. The column above marked 'End of period' reflects Penny James's position as at 30 September 2017, the date at which she stepped down from the Board.
- 6 Following Nic Nicandrou's appointment as Chief Executive of Prudential Corporation Asia on 17 July 2017, he was able to continue saving under his SAYE option contracts at that date but is no longer eligible to participate in future SAYE grants.

# Annual report on remuneration continued

## Directors' terms of employment and external appointments

Details of the service contracts of each Executive Director are outlined in the table below. The Directors' remuneration policy contains further details of the terms included in Executive Director service contracts.

Subject to the Group Chief Executive's or the Chairman's approval, Executive Directors are able to accept external appointments as non-executive directors of other organisations. Fees payable are retained by the Executive Directors.

	Service contracts			External appointment	
	Date of contract	Notice period to the Company	Notice period from the Company	External appointment during 2017	Fee received in the period the Executive Director was a Group Director
<b>Executive Directors</b>					
Mark FitzPatrick	17 May 2017	12 months	12 months	–	–
John Foley	8 December 2010	12 months	12 months	–	–
Nic Nicandrou	27 April 2009	12 months	12 months	–	–
Anne Richards	4 July 2016	12 months	12 months	–	–
Barry Stowe	18 October 2006	12 months	12 months	–	–
Mike Wells	21 May 2015	12 months	12 months	–	–

Directors served on the boards of educational, charitable and cultural organisations without receiving a fee for these services.

Details of changes to the Board of Directors during the year are set out in the Corporate governance report.

## Letters of appointment of the Chairman and Non-executive Directors

Details of Non-executive Directors' individual appointments are outlined below. The Directors' remuneration policy contains further details on their letters of appointment.

Chairman/Non-executive Director	Appointment by the Board	Initial election by shareholders at the AGM	Notice period	Expiry of the current term of appointment
<b>Chairman</b>				
Paul Manduca <sup>1</sup>	15 October 2010	AGM 2011	12 months	AGM 2018
<b>Non-executive Directors</b>				
Philip Remnant	1 January 2013	AGM 2013	6 months	AGM 2019
Howard Davies	15 October 2010	AGM 2011	6 months	AGM 2018
Ann Godbehere <sup>2</sup>	2 August 2007	AGM 2008	6 months	N/A
David Law	15 September 2015	AGM 2016	6 months	AGM 2019
Kai Nargolwala	1 January 2012	AGM 2012	6 months	AGM 2018
Anthony Nightingale	1 June 2013	AGM 2014	6 months	AGM 2020
Alice Schroeder	10 June 2013	AGM 2014	6 months	AGM 2020
Lord Turner	15 September 2015	AGM 2016	6 months	AGM 2019
Thomas Watjen <sup>3</sup>	11 July 2017	AGM 2018	6 months	AGM 2018

### Notes

<sup>1</sup> Paul Manduca was appointed as Chairman on 2 July 2012.

<sup>2</sup> Ann Godbehere retired from the Board at the 2017 AGM.

<sup>3</sup> Thomas Watjen joined the Board on 11 July 2017.



### Recruitment arrangements

In making decisions about the remuneration arrangements for those joining the Board, the Committee worked within the Directors' remuneration policy approved by shareholders and was mindful of:

- The skills, knowledge and experience that each new Executive Director brought to the Board;
- The need to support the relocation of executives to enable them to assume their roles; and
- Its commitment to honour legacy arrangements.

Appointing high-calibre executives to the Board and to different roles on the Board is necessary to ensure the Company is well positioned to develop and implement its strategy and deliver long-term value. As the Company operates in an international market place for talent, the best internal and external candidates are sometimes asked to move location to assume their new roles. Where this happens, the Company will offer relocation support. The support offered will depend on the circumstances of each move but may include paying for travel, shipping services, the provision of temporary accommodation and other housing benefits. Executives may receive support with the preparation of tax returns, but no current Executive Director is tax equalised.

Mark FitzPatrick joined the Board during the year. As Mark did not need to relocate to enable him to assume his role and he had no awards from his previous employer to replace, there were no specific arrangements required for his recruitment.

Nic Nicandrou changed Board role during the year. As this change resulted in Nic relocating to enable him to assume his new role, relocation support in line with the approved Directors' remuneration policy was provided. Details of this support are included in the notes to the 2017 'single figure' table.

### Payments to past Directors and payments for loss of office

The Committee's approach when exercising its discretion under the policy is to be mindful of the particular circumstance of the departure and the contribution the individual made to the Group.

#### Penny James

Penny James stepped down from the Board, and her employment ended, on 30 September 2017. Her remuneration arrangements were in line with the approved Directors' remuneration policy, and disclosed in stock exchange announcements, and the remuneration she received in respect of her services as an Executive Director is set out in the 2017 'single figure' table.

Penny did not receive a loss of office payment.

Penny's deferred bonus awards will be released in accordance with the plan rules and remain subject to malus and clawback provisions.

The Committee determined that Penny should not receive a bonus in respect of the 2017 performance year. The Committee also exercised its discretion in accordance with the approved Directors' remuneration policy and determined that Penny should forfeit her unvested PLTIP awards granted in 2015, 2016 and 2017.

#### Tony Wilkey

Tony Wilkey stepped down from the Board on 17 July 2017. His remuneration arrangements were in line with the approved Directors' remuneration policy, and disclosed in stock exchange announcements, and the remuneration he received in respect of his services as an Executive Director is set out in the 2017 'single figure' table.

Tony's employment with the Group will end on 17 July 2018 and between 18 July 2017 and 31 December 2017 he received £1,345,308 in respect of salary, benefits and pension in accordance with his contract of employment. Tony did not receive a loss of office payment.

Tony's deferred bonus awards will be released in accordance with the plan rules and remain subject to malus and clawback provisions.

Recognising his contribution to the Company's success, the Committee determined that Tony should be awarded a bonus in respect of the 2017 performance year which was calculated in the usual way and pro-rated for service to 17 July 2017. 60 per cent of this bonus will be paid in 2018 and 40 per cent will be deferred for three years, subject to malus and clawback provisions.

The Committee also exercised its discretion in accordance with the approved Directors' remuneration policy and determined that Tony should be allowed to retain his unvested PCA LTIP and PLTIP awards granted in 2014, 2015, 2016 and 2017. These awards will vest in accordance with the original timetable, subject to the original performance conditions, remain subject to malus and clawback provisions, and will be pro-rated for service.

As referred to above, Tony holds PCA LTIP and PLTIP awards granted in 2014 and 2015. The two PCA LTIP awards were granted before Tony was appointed to the Board: one of these awards, granted in 2014, had performance measures and one of these awards, granted in 2015, had no performance conditions.

## Annual report on remuneration continued

As set out in the section 'Remuneration in respect of performance in 2017' the performance conditions attached to Tony's 2015 PLTIP awards were partially met and 89.3 per cent of these awards will be released in 2018 and the performance conditions attached to Tony's 2014 PCA Performance LTIP awards were met in full and 100 per cent of these awards will be released in 2018. The details of all Tony's LTIP releases are set out below.

Award	Number of shares vesting <sup>1</sup>	Value of shares vesting <sup>2</sup>
PCA LTIP	42,183	£781,229
PCA LTIP with performance conditions	68,806	£1,274,287
Prudential LTIP	48,384	£896,071

### Notes

1 The number of shares vesting include accrued dividend shares.

2 The share price used to calculate the value was the average share price for the three months up to 31 December 2017, being £18.52.

### Michael McLintock

Michael McLintock's employment with the Group ended on 31 July 2016. The 2016 Directors' remuneration report provided details of the remuneration arrangements that would apply to Michael after he left the Board. During the year, tax was paid by the Company in 2017 on certain non-payroll benefits received by Michael in 2016 (and reported in the Annual report on remuneration for 2016), which amounted to £7,496.

Michael holds a PLTIP award granted in 2015 and as set out in the section 'Remuneration in respect of performance in 2017' the performance condition attached to Michael's 2015 PLTIP awards was partially met and 91.67 per cent of these awards will be released in 2018. These awards were pro-rated for service (16 of 36 months) and the details of the release are set out below.

Award	Number of shares vesting <sup>1</sup>	Value of shares vesting <sup>2</sup>
Prudential LTIP	15,557	£288,116

### Notes

1 The number of shares vesting includes accrued dividend shares.

2 The share price used to calculate the value was the average share price for the three months up to 31 December 2017, being £18.52.

Additionally, Michael holds phantom share awards granted under the 2015 M&G Executive Long-Term Incentive. The share price of those awards is determined by the increase or decrease in M&G's profitability over the three-year performance period with adjustments for the investment performance of its funds. These awards were pro-rated for service (578 of 1,096 days) and M&G's performance and the resulting phantom share price are shown below:

Award	Three-year profit growth of M&G	Three-year investment performance	2016 phantom share price	Value of awards vesting
2015 M&G Executive LTIP	12%	2nd quartile	£2.05	£1,277,875

### Other Directors

A number of former Directors receive retiree medical benefits for themselves and their partner (where applicable). This is consistent with other senior members of staff employed at the same time. A de minimis threshold of £10,000 has been set by the Committee; any payments or benefits provided to a past Director under this amount will not be reported.

### Statement of voting at general meeting

At the 2017 Annual General Meeting, shareholders were asked to vote on the new Directors' remuneration policy and the 2016 Directors' remuneration report. Each of these resolutions received a significant vote in favour by shareholders and the Committee is grateful for this support and endorsement by our shareholders. The votes received were:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the Directors' remuneration policy (2017 AGM)	1,773,691,171	90.71	181,582,497	9.29	1,955,273,668	45,820,585
To approve the Directors' remuneration report (2017 AGM)	1,754,440,188	88.86	219,921,823	11.14	1,974,362,011	26,736,043

### Statement of implementation in 2018

#### Executive Directors

Executive Directors' remuneration packages were reviewed in 2017 with changes effective from 1 January 2018. When the Committee took these decisions, it considered the salary increases awarded to other employees in 2017 and the expected increases in 2018. The external market reference points used to provide context to the Committee were identical to those used for 2017 salaries.

All Executive Directors received a salary increase of 2 per cent. The 2018 salary increase budgets for other employees across the Group's business units were between 2.5 per cent and 10 per cent. No changes have been made to executives' maximum opportunities under either the annual incentive or the long-term incentive plans.

The Executive Directors' bonus opportunity, performance measures and weightings will remain the same as in 2017. The Executive Directors' long-term incentive awards will be made under the PLTIP and the opportunity, performance measures and weightings will remain the same as 2017 other than:

- Following the merger of Standard Life and Aberdeen Asset Management, the combined entity of Standard Life Aberdeen will be included in the relative TSR peer group; and
- Performance against the balanced scorecard measures in the scorecard used for the 2018 PLTIP awards will be assessed on a vesting scale of threshold, target and maximum performance over a three-year period rather than using the binary, meet/fail, approach used for the 2017 PLTIP awards.

On 1 March 2018, the Company announced that James Turner had joined the Board as Group Chief Risk Officer. James's basic salary will be £625,000 per annum. He will have a maximum bonus opportunity of 160 per cent of base salary under the Annual Incentive Plan. In accordance with the Solvency II remuneration requirements, James's bonus will be assessed solely on functional and personal objectives. Forty per cent of any bonus will be deferred into the Company's shares for three years. Long-term incentive awards, granted under the Prudential LTIP, will have a face value on grant of 250 per cent of base salary. In accordance with the Solvency II remuneration requirements, the vesting of James's PLTIP awards will depend on TSR (50 per cent of award), Group IFRS operating profit (20 per cent of award) and the sustainability scorecard (30 per cent of award). James's service contract contains a notice provision under which either party may terminate upon 12 months' notice.


#### Chairman and Non-executive Directors

Fees for the Chairman and Non-executive Directors were reviewed in 2017 with changes effective from 1 July 2017, as set out on page 147. The next review will be effective 1 July 2018.

Signed on behalf of the Board of Directors



**Anthony Nightingale, CMG SBS JP**  
Chair of the Remuneration Committee  
14 March 2018



**Paul Manduca**  
Chairman  
14 March 2018

## Supplementary information

### Directors' outstanding long-term incentive awards Share-based long-term incentive awards

Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2017	Conditional awards in 2017	Market price at date of award	Dividend equivalents on vested shares <sup>3</sup>	Rights exercised in 2017	Rights lapsed in 2017	Conditional share awards outstanding at 31 Dec 2017	Date of end of performance period	
		(number of shares)	(number of shares)	(pence)	(number of shares released)			(number of shares)		
Mark FitzPatrick	PLTIP	2017		101,360	1,828			101,360	31 Dec 19	
			–	101,360		–	–	–	101,360	
John Foley	PLTIP	2014	125,776		1,317	7,972	89,093	36,683	–	31 Dec 16
	PLTIP	2014	29,556		1,342	1,872	20,935	8,621	–	31 Dec 16
	PLTIP	2015	122,808		1,672				122,808	31 Dec 17
	PLTIP	2016	144,340		1,279				144,340	31 Dec 18
	PLTIP	2017		114,177	1,672				114,177	31 Dec 19
			422,480	114,177		9,844	110,028	45,304	381,325	
Nic Nicandrou	PLTIP	2014	132,375		1,317	8,390	93,768	38,607	–	31 Dec 16
	PLTIP	2015	104,117		1,672				104,117	31 Dec 17
	PLTIP	2016	136,836		1,279				136,836	31 Dec 18
	PLTIP	2017		108,357	1,672				108,357	31 Dec 19
			373,328	108,357		8,390	93,768	38,607	349,310	
Anne Richards	PLTIP	2016	45,906		1,358.5				45,906	31 Dec 18
	PLTIP	2017		107,461	1,672				107,461	31 Dec 19
			45,906	107,461		–	–	–	153,367	
Barry Stowe <sup>1</sup>	PLTIP	2014	114,824		1,317	7,034	78,462	36,362	–	31 Dec 16
	PLTIP	2015	113,940		1,672				113,940	31 Dec 17
	PLTIP	2015	50,668		1,611.5				50,668	31 Dec 17
	PLTIP	2016	274,100		1,279				274,100	31 Dec 18
	PLTIP	2017		247,690	1,672				247,690	31 Dec 19
			553,532	247,690		7,034	78,462	36,362	686,398	
Mike Wells <sup>2</sup>	PLTIP	2014	238,954		1,317	15,178	169,262	69,692	–	31 Dec 16
	PLTIP	2015	209,222		1,672				209,222	31 Dec 17
	PLTIP	2015	30,132		1,611.5				30,132	31 Dec 17
	PLTIP	2016	332,870		1,279				332,870	31 Dec 18
	PLTIP	2017		263,401	1,672				263,401	31 Dec 19
			811,178	263,401		15,178	169,262	69,692	835,625	

#### Notes

1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

2 The awards in 2014 and 2015 for Mike Wells were made in ADRs (1 ADR = 2 ordinary shares). The awards in 2016 and 2017 were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

3 A dividend equivalent was accumulated on these awards.

### Business-specific cash-based long-term incentive plans

Year of award	Face value of conditional share awards outstanding at 1 January 2017	Payments made in 2017	Face value of conditional share awards outstanding at 31 December 2017	Date of end of performance period	
	£000	£000	£000		
Anne Richards					
M&G Executive LTIP	2016	1,200	–	1,200	31 Dec 2018

#### Note

Under the M&G Executive LTIP, the value of each unit at award is £1. The value of units changes based on M&G's profit growth and investment performance over the performance period.

## Other share awards

The table below sets out Executive Directors' deferred bonus share awards.

	Year of grant	Conditional share awards outstanding at 1 Jan 2017 (number of shares)	Conditionally awarded in 2017 (number of shares)	Dividends accumulated in 2017 (number of shares) (note 3)	Shares released in 2017 (number of shares)	Conditional share awards outstanding at 31 Dec 2017 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
<b>John Foley</b>										
Deferred 2013 annual incentive award	2014	33,968			33,968	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	43,651		1,132		44,783	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	65,713		1,705		67,418	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		30,352	787		31,139	31 Dec 19		1,672	
		143,332	30,352	3,624	33,968	143,340				
<b>Nic Nicandrou</b>										
Deferred 2013 annual incentive award	2014	38,024			38,024	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	29,887		775		30,662	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	39,107		1,014		40,121	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		29,504	765		30,269	31 Dec 19		1,672	
		107,018	29,504	2,554	38,024	101,052				
<b>Anne Richards</b>										
Deferred 2016 annual incentive award	2017		32,668	846		33,514	31 Dec 19		1,672	
			32,668	846		33,514				
<b>Barry Stowe</b> <sup>(note 1)</sup>										
Deferred 2013 annual incentive award	2014	32,950			32,950	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	29,046		754		29,800	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	111,618		2,900		114,518	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		134,534	3,494		138,028	31 Dec 19		1,672	
		173,614	134,534	7,148	32,950	282,346				
<b>Mike Wells</b> <sup>(note 2)</sup>										
Deferred 2013 annual incentive award	2014	108,578			108,578	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	120,686		3,136		123,822	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	107,112		2,778		109,890	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		51,371	1,332		52,703	31 Dec 19		1,672	
		336,376	51,371	7,246	108,578	286,415				

### Notes

1 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.

2 The awards for Mike Wells in 2014 and 2015 were made in ADRs (1 ADR = 2 ordinary shares). The awards made in 2016 and 2017 were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.

3 A dividend equivalent was accumulated on these awards.

## Supplementary information continued

### All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive Directors are invited to participate in these plans on the same basis as other staff in their location.

### Save As You Earn (SAYE) schemes

UK-based Executive Directors are eligible to participate in the HM Revenue and Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Since 2014 participants have been able to elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

Details of Executive Directors' rights under the SAYE scheme are set out in the 'Outstanding share options' table.

### Share Incentive Plan (SIP)

UK-based Executive Directors are also eligible to participate in the Company's Share Incentive Plan (SIP). Since April 2014, all UK-based employees have been able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2017 (Number of shares)	Partnership shares accumulated in 2017 (Number of shares)	Matching shares accumulated in 2017 (Number of shares)	Dividend shares accumulated in 2017 (Number of shares)	Share Incentive Plan awards held in Trust at 31 Dec 2017 (Number of shares)
Mark FitzPatrick	2017	–	65	16	–	81
John Foley	2014	433	104	26	13	576
Nic Nicandrou <sup>1</sup>	2010	1,644	63	16	43	1,766
Mike Wells	2015	270	104	26	8	408

#### Note

<sup>1</sup> Following Nic Nicandrou's appointment as Chief Executive of Prudential Corporation Asia on 17 July 2017, he is no longer eligible to participate in the SIP. However, while his shares remain in the SIP Trust he will receive any dividends payable on these shares.

### Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out Executive Directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some Executive Directors, please see our Annual report on remuneration.

### Dilution

Releases from the Prudential Long Term Incentive Plan and the Prudential Agency Long Term Incentive Plan are satisfied using new issue shares rather than by purchasing shares in the open market. Shares relating to options granted under all-employee share plans are also satisfied by new issue shares. The combined dilution from all outstanding shares and options at 31 December 2017 was 1.09 per cent of the total share capital at the time. Deferred bonus awards will continue to be satisfied by the purchase of shares in the open market.

### Five highest paid individuals

Of the five individuals with the highest emoluments in 2017, two were Executive Directors whose emoluments are disclosed in this report. The aggregate of the emoluments of the other three individuals for 2017 were as follows:

	<b>2017</b> £000
Base salaries, allowances and benefits in kind	3,381
Pension contributions	129
Performance related pay	24,236
<b>Total</b>	<b>27,746</b>

Their emoluments were within the following bands:

	<b>Number of five highest paid employees 2017</b>
£7,800,001-£7,900,000	1
£8,100,001-£8,200,000	1
£11,700,001-£11,800,000	1







# 05

## Financial statements

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# Consolidated income statement

Year ended 31 December	Note	2017 £m	2016 £m
Gross premiums earned		44,005	38,981
Outward reinsurance premiums		(2,062)	(2,020)
Earned premiums, net of reinsurance	B1.4	41,943	36,961
Investment return	B1.4	42,189	32,511
Other income	B1.4	2,430	2,370
Total revenue, net of reinsurance	B1.4	86,562	71,842
Benefits and claims		(71,854)	(60,948)
Outward reinsurers' share of benefit and claims		2,193	2,412
Movement in unallocated surplus of with-profits funds		(2,871)	(830)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	B1.4	(72,532)	(59,366)
Acquisition costs and other expenditure	B2	(10,165)	(8,848)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(425)	(360)
Disposal of Korea life business:	D1		
Cumulative exchange gain recycled from other comprehensive income		61	–
Remeasurement adjustments		5	(238)
Gain on disposal of other businesses	D1	162	–
Total charges, net of reinsurance and gain (loss) on disposal of businesses	B1.4	(82,894)	(68,812)
Share of profits from joint ventures and associates, net of related tax	D6	302	182
Profit before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> )*		3,970	3,212
Less tax charge attributable to policyholders' returns		(674)	(937)
Profit before tax attributable to shareholders	B1.1	3,296	2,275
Total tax charge attributable to policyholders and shareholders	B4	(1,580)	(1,291)
Adjustment to remove tax charge attributable to policyholders' returns		674	937
Tax charge attributable to shareholders' returns	B4	(906)	(354)
<b>Profit for the year</b>		<b>2,390</b>	<b>1,921</b>
<b>Attributable to:</b>			
Equity holders of the Company		2,389	1,921
Non-controlling interests		1	–
<b>Profit for the year</b>		<b>2,390</b>	<b>1,921</b>
<b>Earnings per share (in pence)</b>		<b>2017</b>	<b>2016</b>
Based on profit attributable to the equity holders of the Company:	B5		
Basic		93.1p	75.0p
Diluted		93.0p	75.0p

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

## Consolidated statement of comprehensive income

Year ended 31 December	Note	2017 £m	2016 £m
<b>Profit for the year</b>		2,390	1,921
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year	A1	(404)	1,148
Cumulative exchange gain of sold Korea life business recycled through profit or loss		(61)	–
Related tax		(5)	13
		(470)	1,161
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:			
Net unrealised holding gains arising during the year		591	241
Net gains (losses) included in the income statement on disposal and impairment		26	(269)
Total	C3.2(c)	617	(28)
Related change in amortisation of deferred acquisition costs	C5 (b)	(76)	76
Related tax	C8	(55)	(17)
		486	31
Total		16	1,192
<b>Items that will not be reclassified to profit or loss</b>			
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:			
Gross		104	(107)
Related tax		(15)	14
		89	(93)
<b>Other comprehensive income for the year, net of related tax</b>		105	1,099
<b>Total comprehensive income for the year</b>		2,495	3,020
<b>Attributable to:</b>			
Equity holders of the Company		2,494	3,020
Non-controlling interests		1	–
<b>Total comprehensive income for the year</b>		2,495	3,020

## Consolidated statement of changes in equity

Year ended 31 December 2017 £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
<b>Reserves</b>								
	-	-	2,389	-	-	2,389	1	2,390
Other comprehensive income:								
	-	-	-	(470)	-	(470)	-	(470)
	-	-	-	-	486	486	-	486
	-	-	89	-	-	89	-	89
<b>Total other comprehensive income (loss)</b>								
	-	-	89	(470)	486	105	-	105
<b>Total comprehensive income for the year</b>								
	-	-	2,478	(470)	486	2,494	1	2,495
Dividends								
B6	-	-	(1,159)	-	-	(1,159)	-	(1,159)
Reserve movements in respect of share-based payments								
	-	-	89	-	-	89	-	89
Change in non-controlling interests*								
	-	-	-	-	-	-	5	5
<b>Share capital and share premium</b>								
C10	-	21	-	-	-	21	-	21
<b>Treasury shares</b>								
Movement in own shares in respect of share-based payment plans								
	-	-	(15)	-	-	(15)	-	(15)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS								
	-	-	(9)	-	-	(9)	-	(9)
<b>Net increase (decrease) in equity</b>								
	-	21	1,384	(470)	486	1,421	6	1,427
<b>At beginning of year</b>								
	129	1,927	10,942	1,310	358	14,666	1	14,667
<b>At end of year</b>								
	129	1,948	12,326	840	844	16,087	7	16,094

\* Arising from the acquisition of the majority stake in Zenith Life of Nigeria in 2017.

## Consolidated statement of changes in equity continued

Year ended 31 December 2016 £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
<b>Reserves</b>									
Profit for the year		–	–	1,921	–	–	1,921	–	1,921
Other comprehensive income:									
Exchange movements on foreign operations and net investment hedges, net of related tax		–	–	–	1,161	–	1,161	–	1,161
Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax		–	–	–	–	31	31	–	31
Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of related tax		–	–	(93)	–	–	(93)	–	(93)
Total other comprehensive income (loss)		–	–	(93)	1,161	31	1,099	–	1,099
Total comprehensive income for the year		–	–	1,828	1,161	31	3,020	–	3,020
Dividends	B6	–	–	(1,267)	–	–	(1,267)	–	(1,267)
Reserve movements in respect of share-based payments		–	–	(51)	–	–	(51)	–	(51)
<b>Share capital and share premium</b>									
New share capital subscribed	C10	1	12	–	–	–	13	–	13
<b>Treasury shares</b>									
Movement in own shares in respect of share-based payment plans		–	–	2	–	–	2	–	2
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	(6)	–	–	(6)	–	(6)
Net increase in equity		1	12	506	1,161	31	1,711	–	1,711
At beginning of year		128	1,915	10,436	149	327	12,955	1	12,956
<b>At end of year</b>		<b>129</b>	<b>1,927</b>	<b>10,942</b>	<b>1,310</b>	<b>358</b>	<b>14,666</b>	<b>1</b>	<b>14,667</b>

# Consolidated statement of financial position

31 December	Note	2017 £m	2016 £m
<b>Assets</b>			
Goodwill	C5(a)	1,482	1,628
Deferred acquisition costs and other intangible assets	C5(b)	11,011	10,807
Property, plant and equipment	C13	789	743
Reinsurers' share of insurance contract liabilities	C4.1(a)(iv)	9,673	10,051
Deferred tax assets	C8.1	2,627	4,315
Current tax recoverable	C8.2	613	440
Accrued investment income	C1	2,676	3,153
Other debtors	C1	2,963	3,019
Investment properties	C14	16,497	14,646
Investment in joint ventures and associates accounted for using the equity method	D6	1,416	1,273
Loans	C3.3	17,042	15,173
Equity securities and portfolio holdings in unit trusts		223,391	198,552
Debt securities	C3.2	171,374	170,458
Derivative assets	C3.4	4,801	3,936
Other investments		5,622	5,465
Deposits		11,236	12,185
Assets held for sale		38	4,589
Cash and cash equivalents		10,690	10,065
<b>Total assets</b>	C1	<b>493,941</b>	<b>470,498</b>
<b>Equity</b>			
Shareholders' equity		16,087	14,666
Non-controlling interests		7	1
<b>Total equity</b>		<b>16,094</b>	<b>14,667</b>
<b>Liabilities</b>			
Insurance contract liabilities	C4.1	328,172	316,436
Investment contract liabilities with discretionary participation features	C4.1	62,677	52,837
Investment contract liabilities without discretionary participation features	C4.1	20,394	19,723
Unallocated surplus of with-profits funds	C4.1	16,951	14,317
Core structural borrowings of shareholder-financed operations	C6.1	6,280	6,798
Operational borrowings attributable to shareholder-financed operations	C6.2	1,791	2,317
Borrowings attributable to with-profits operations	C6.2	3,716	1,349
Obligations under funding, securities lending and sale and repurchase agreements		5,662	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		8,889	8,687
Deferred tax liabilities	C8.1	4,715	5,370
Current tax liabilities	C8.2	537	649
Accruals, deferred income and other liabilities		14,185	13,825
Provisions	C11	1,123	947
Derivative liabilities	C3.4	2,755	3,252
Liabilities held for sale		–	4,293
<b>Total liabilities</b>	C1	<b>477,847</b>	<b>455,831</b>
<b>Total equity and liabilities</b>		<b>493,941</b>	<b>470,498</b>

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,232 million (2016: £8,545 million) of lent securities and assets subject to repurchase agreements.

The consolidated financial statements on pages 161 to 304 were approved by the Board of Directors on 14 March 2018. They were signed on its behalf.



**Paul Manduca**  
Chairman



**Mike Wells**  
Group Chief Executive



**Mark FitzPatrick**  
Chief Financial Officer

# Consolidated statement of cash flows

Year ended 31 December	Note	2017 £m	2016 £m
<b>Cash flows from operating activities</b>			
Profit before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> ) <sup>note (i)</sup>		3,970	3,212
Non-cash movements in operating assets and liabilities reflected in profit before tax:			
Investments		(49,771)	(37,824)
Other non-investment and non-cash assets		(968)	(2,490)
Policyholder liabilities (including unallocated surplus)		44,877	31,135
Other liabilities (including operational borrowings)		3,360	7,861
Interest income and expense and dividend income included in result before tax		(8,994)	(9,749)
Other non-cash items		549	834
Operating cash items:			
Interest receipts		6,900	7,886
Dividend receipts		2,612	2,286
Tax paid <sup>note (iv)</sup>		(915)	(950)
Net cash flows from operating activities		1,620	2,201
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	C13	(134)	(348)
Proceeds from disposal of property, plant and equipment		–	102
Acquisition of subsidiaries and intangibles <sup>note (v)</sup>		(351)	(303)
Sale of businesses <sup>note (v)</sup>		1,301	–
Net cash flows from investing activities		816	(549)
<b>Cash flows from financing activities</b>			
Structural borrowings of the Group:			
Shareholder-financed operations: <sup>note (ii)</sup>	C6.1		
Issue of subordinated debt, net of costs		565	1,227
Redemption of subordinated debt		(751)	–
Interest paid		(369)	(335)
With-profits operations: <sup>note (iii)</sup>	C6.2		
Interest paid		(9)	(9)
Equity capital:			
Issues of ordinary share capital		21	13
Dividends paid		(1,159)	(1,267)
Net cash flows from financing activities		(1,702)	(371)
Net increase in cash and cash equivalents		734	1,281
Cash and cash equivalents at beginning of year		10,065	7,782
Effect of exchange rate changes on cash and cash equivalents		(109)	1,002
<b>Cash and cash equivalents at end of year</b>		<b>10,690</b>	<b>10,065</b>

## Notes

(i) This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

The changes in the carrying value of the structural borrowings of shareholder-financed operations during 2017 are analysed as follows:

	Cash movements £m			Non-cash movements £m		
	Balance at 1 Jan 2017	Issue of debt	Redemption of debt	Foreign exchange movement	Other movements	Balance at 31 Dec 2017
Structural borrowings of shareholder-financed operations	6,798	565	(751)	(341)	9	6,280

(iii) 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. There is no change in respect of the carrying value of the £100 million structural borrowings of the with-profits operations during 2017. 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.

(iv) Tax paid includes £298 million (2016: £226 million) paid on profits taxable at policyholder rather than shareholder rates.

(v) Net cash flows for corporate transactions are for distribution rights and acquisition and disposal of businesses (including private equity and other subsidiaries acquired by with-profits funds for investment purposes).



## 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. The Group has operations in Asia, the US, UK and Europe and Africa. 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 2017, there were no unendorsed standards effective for the two years ended 31 December 2017 which impact 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 305.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2016 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 2017	Average rate for 2017	Closing rate at 31 Dec 2016	Average rate for 2016
Local currency: £				
Hong Kong	10.57	10.04	9.58	10.52
Indonesia	18,353.44	17,249.38	16,647.30	18,026.11
Malaysia	5.47	5.54	5.54	5.61
Singapore	1.81	1.78	1.79	1.87
China	8.81	8.71	8.59	8.99
India	86.34	83.90	83.86	91.02
Vietnam	30,719.60	29,279.71	28,136.99	30,292.79
Thailand	44.09	43.71	44.25	47.80
US	1.35	1.29	1.24	1.35

Certain notes to the financial statements present 2016 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 2017 recognised in other comprehensive income is:

	2017 £m	2016 £m
Asia operations*	(295)	785
US operations	(477)	853
Unallocated to a segment (other funds)†	307	(490)
	(465)	1,148

\* 2017 included the recycling of the cumulative exchange gain of the sold Korea life business of £61 million to the income statement.

† The exchange rate movement unallocated to a segment mainly reflects the translation of currency borrowings, issued by group holding companies, that have been designated as a net investment hedge against the currency risk of the Group's investment in Jackson.

### A2 New accounting pronouncements in 2017

The IASB has issued the following new accounting pronouncements to be effective for 1 January 2017:

- Disclosure Initiative (Amendments to IAS 7, 'Statement of Cash Flows');
- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12, 'Income Taxes'); and
- Annual improvements to IFRSs 2014 – 2016 cycle.

Other than the additional disclosure of the changes in structural borrowings during the year in the statement of cash flows, these pronouncements have no effect 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 affecting the presentation of the Group's results and other items that 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 considering whether the material features of a contract gives rise to the transfer of significant insurance risk.

Impacts £436 billion of reported liabilities, requiring classification.

Contracts that transfer significant insurance risk to the Group are classified as insurance contracts. This judgement is made at the point of contract inception and is not revisited. For the majority of the Group's contracts classification is based on a readily identifiable scenario that demonstrates a significant difference in cash flows if the covered event occurs (as opposed to does not occur) reducing the level of judgement involved. Contracts that transfer financial risk to the Group but not significant insurance risk are classified as 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 such discretionary participation features are accounted for as financial instruments under IAS 39.

<i>Insurance business units</i>	<i>Insurance contracts and investment contracts with discretionary participation features</i>	<i>Investment contracts without discretionary participation features</i>
Asia	<ul style="list-style-type: none"> <li>— With-profits contracts</li> <li>— Non-participating term contracts</li> <li>— Whole life contracts</li> <li>— Unit-linked policies</li> <li>— Accident and health policies</li> </ul>	<ul style="list-style-type: none"> <li>— Minor amounts for a number of small categories of business</li> </ul>
US	<ul style="list-style-type: none"> <li>— Variable annuity contracts</li> <li>— Fixed annuity contracts</li> <li>— Life insurance contracts</li> </ul>	<ul style="list-style-type: none"> <li>— Guaranteed investment contracts (GICs)</li> <li>— Minor amounts of 'annuity certain' contracts</li> </ul>
UK and Europe	<ul style="list-style-type: none"> <li>— With-profits contracts</li> <li>— Bulk and individual annuity business</li> <li>— Non-participating term contracts</li> </ul>	<ul style="list-style-type: none"> <li>— Certain unit-linked savings and similar contracts</li> </ul>

## 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 £436 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. When measuring policyholder contract liabilities a number of assumptions are applied to estimate future amounts due to or from the policyholder. The nature of assumption varies by product and among the most significant are assumed rates of policyholders' mortality, particularly in respect of annuities sold in the UK, and policyholder behaviour, particularly in the US. Additional details of valuation methodologies and assumptions applied for material product types are discussed in note C4.2.

Measurement of insurance contract liabilities and investment contracts liabilities with discretionary participation features.

### 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, Taiwan and India, US GAAP principles are 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 and Europe insurance 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.

The sensitivity of US insurance operations to variations in key estimates and assumptions, including policyholder behaviour, is discussed in note C7.3.

## A Background and critical accounting policies continued

### 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 and Europe 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 charges and expenses. 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. Shareholders' 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.

The sensitivity of UK and Europe insurance operations to variations in key estimates and assumptions, including annuitant mortality, is discussed in note C7.4.

###### Measurement of investment contracts without discretionary participation features liabilities.

Investment contracts without discretionary participation features are 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 classified as financial instruments and 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.

Other investment contracts are measured at amortised cost.

###### Measurement of unallocated surplus of with-profits funds.

Represents the excess of assets over policyholder liabilities that are determined in accordance with the Group's accounting policies and are based on local GAAP for the Group's with-profits funds in the UK, Hong Kong and Malaysia 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.

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

### 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.

Jackson's liabilities for insurance contracts, which include those for separate accounts (reflecting separate account assets), policyholder account values and guarantees measured as described in note C4.2 and the associated deferred acquisition cost asset are measured under US GAAP and liability adequacy testing is performed in this context. Under US GAAP, most of Jackson's products are accounted for under Accounting Standards Codification Topic 944, Financial Services – Insurance of the Financial Accounting Standards Board (ASC 944) 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.

£18,533 million of US income statement investment return arises from such derivatives and debt securities.

Jackson enters into derivative instruments 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.

### 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 £3,296 million and compares to profit before tax of £3,970 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 B4. 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.

## A Background and critical accounting policies continued

### A3 Accounting policies continued

#### A3.1 Critical accounting policies, estimates and judgements continued

##### 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 £5,577 million and is 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 policyholder liabilities (including the unallocated surplus).

##### (c) Further critical estimates or judgements

##### Deferred acquisition costs for insurance contracts

The Group applies judgement in determining qualifying costs that should be capitalised (ie those costs of acquiring new insurance business that meet the criteria under the Group's accounting policy for deferred acquisition costs). It makes estimates in projecting future profits/margins to assess whether adjustments to the carrying value or amortisation profile of deferred acquisition cost assets are necessary.

£9.2 billion of deferred acquisition costs as per note C5(b).

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 is deemed impaired if the projected margins (which are estimated based on a number of assumptions similar to those underlying policyholder liabilities) 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.

##### Asia insurance operations

For those business units 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.

## Deferred acquisition costs for insurance contracts continued

### US insurance operations

The most material estimates and assumptions applied in the measurement and amortisation of deferred acquisition cost balances relate to the 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 capitalise 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 experience, 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 on current balances, assumptions and sensitivity, refer to note C5 (b) and C7.3(iv).

To ensure that the methodology in extreme market movements produces future expected returns that are realistic, 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 makes certain adjustments to the deferred acquisition costs which are recognised directly in other comprehensive income ('shadow accounting'). If the 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 consistent with the gains or losses on the securities. More precisely, shadow deferred acquisition costs 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.

### UK and Europe insurance operations

For UK regulated with-profits funds where 'grandfathered' FRS 27 is applied, 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.

## A Background and critical accounting policies continued

### A3 Accounting policies continued

#### A3.1 Critical accounting policies, estimates and judgements continued

##### Financial investments – Valuation

Financial investments held at fair value represent £407.3 billion of the Group's total assets.

The Group applies valuation techniques, including the use of estimates, 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 loans and deposits.

##### Determination of fair value

The Group uses current bid prices to value its investments having quoted prices. Actively traded investments without quoted prices are valued using prices provided by third parties as described further in note C3.1. Financial investments measured at fair value are classified into a three-level hierarchy as described in note C3.1(b).

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. Details of the financial investments classified as 'level 3' to which valuation techniques are applied, and the sensitivity of profit before tax to a change in these items' valuation, are presented in note C3.1(d).

##### 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. Further details of the assumptions and estimates applied in assessing impairment of US available-for-sale securities is given in note C3.2(g).



## Financial investments – Determining impairment in relation to financial assets

The Group applies judgement as to whether evidence of an impairment in value exists for financial investments classified as 'available-for-sale' or 'at amortised cost'.

If evidence for impairment exists, valuation techniques, including estimates, are then applied in determining the impaired value.

Affects £47.5 billion of assets.

For 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 impairment assets. The loss comprises the effect of the expected loss of contractual cash flows and any additional market-price driven temporary reductions in values.

### 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 methodology and estimates used to determine impairments of the available-for-sale securities of Jackson are described in note C3.2(g).

The majority of the US insurance operation's debt securities portfolio is 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.

### 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.

To ensure any required impairment is recognised in the current period 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, and then applies judgement to assess whether these factors indicate impairment has occurred.

If an impairment has occurred, an impairment charge is recognised for the difference between the carrying value and recoverable amount of the asset. The recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is calculated as the present value of future expected cash flows from the asset or the cash generating unit to which it is allocated.

## A Background and critical accounting policies continued

### 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 2017, 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 contracts 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, IFRS 15 in the context of Prudential's business, applies to 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 provision for investment management services. The IFRS 15 impact assessment performed included the review of the recognition of asset management and performance fees of these contracts. The adoption of this standard in 2018 is not expected to result in a restatement of the Group's profit for the year or shareholders' equity.

##### 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. In October 2017, the IASB issued two amendments to IFRS 9, to permit the measurement of debt instruments with prepayment compensation features to be measured at amortised cost or fair value through other comprehensive income if certain conditions are met, and to clarify that IFRS 9 applies to long-term interests in joint ventures and associates. Both of these amendments that were issued in October 2017 are effective for the annual periods beginning on or after 1 January 2019, but are not yet endorsed by the EU.

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

When adopted IFRS 9 replaces the existing IAS 39, 'Financial Instruments – Recognition and Measurement', and will affect the following three areas:

- *The classification and the measurement of financial assets and liabilities*  
Under IFRS 9, the classification of financial assets is redefined. Based on the business model in which the assets are held and their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest'), financial assets are classified into one of the following categories: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). An option is also available at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces accounting mismatches.  
At present a significant proportion (82 per cent) of the Group's investments are valued at FVTPL and the Group's current expectation is that a significant proportion will continue to be designated as such under IFRS 9.  
The existing IAS 39 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, resulting in earlier recognition of credit losses compared to IAS 39. The impairment charge recognition under the new model is in three stages:
  - Stage 1 – at initial recognition, and for each subsequent reporting period when there has been no significant increase in credit risk since initial recognition, recognise 12 month expected credit losses;
  - Stage 2 – recognise lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition; or
  - Stage 3 – recognise incurred losses for credit-impaired assets, similar to IAS 39.

This aspect is the most complex area of IFRS 9 to implement and will involve significant judgements and estimate processes.

- *The hedge accounting requirements* which are more closely aligned with the risk management activities of the Company.  
No significant change to the Group's hedge accounting is currently anticipated, but this remains under review.

The Group is assessing the impact of IFRS 9 and implementing this standard in conjunction with the IFRS 17. Further details on IFRS 17 are provided below. Adoption of IFRS 9 may result in reclassifying certain of the Group's financial assets and hence lead to a change in the measurement of those instruments or the reporting of their value. In addition, for any investments classified as amortised cost or FVOCI, as noted above, the impairment provisioning approach is altered from the current IAS 39 approach. The Group is currently assessing the scope of assets to which these requirements will apply. 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.

### **IFRS 16, 'Leases'**

In January 2016, the IASB published 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 requiring most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. The only optional exemptions are for short-term leases and leases of low-value assets. Lessor accounting however remains largely unchanged from IAS 17.

IFRS 16 applies primarily to operating leases of major properties occupied by the Group's businesses where Prudential is a lessee. Under IFRS 16, these leases will be brought onto the Group's 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 income statement will be replaced with a depreciation charge for the 'right to use' asset and an interest expense on the lease liability leading to a more front-loaded operating lease cost profile compared to IAS 17. The Group is currently sourcing the required information to implement this new standard.

IFRS 16 permits transition to the new standard through a modified retrospective approach or a full retrospective approach. Under the modified retrospective approach, as well as affording a number of simplifications the Group's comparative information is not restated, but there is an adjustment to retained earnings at the date of initial application (ie 1 January 2019). The Group is currently assessing the impact of the modified retrospective approach before confirming the approach it intends to adopt. The ultimate impact of IFRS 16 on the Group's financial statements will be dependent on the leases that are in place and the related discount rate on the date of initial application.

## **Accounting pronouncements not yet endorsed by the EU**

### **IFRS 17, 'Insurance Contracts'**

In May 2017, the IASB issued IFRS 17 'Insurance Contracts' to replace the existing IFRS 4 'Insurance Contracts'. The standard, which is subject to endorsement in the EU and other territories, applies to annual periods beginning on or after 1 January 2021. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt the new standard on its mandatory effective date in 2021, alongside the adoption of IFRS 9 (see above).

IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. IFRS 17 replaces this with a new liability and revenue measurement model for all insurance contracts.

The new measurement model requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, and a contractual service margin (CSM) that is equal and opposite to any day-one gain arising. Losses are recognised directly into the income statement. The present value of future cash flows and the risk adjustment are updated at each reporting date in order to reflect current conditions. The CSM is released to the income statement as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. Subsequent changes in non-economic assumptions applied to the valuation of insurance liabilities are recognised as an adjustment to the CSM, prospectively affecting the amounts released to the statement of comprehensive income. For the purpose of the measurement insurance contracts are grouped together with contracts of similar risk, profitability profile and issue year, with the measurement model applied at this group level.

IFRS 17 provides an adaptation of the measurement model designed to account for certain contracts with participating features, such as UK style with-profits contracts and unit-linked or similar contracts, in which the policyholder will be paid a substantial share of the fair value returns of a specified group of items and the return to the insurer effectively reflects a variable management fee. This adaptation – the Variable Fee Approach (VFA) – allows the CSM to be adjusted for changes in economic experience and assumptions which reflect a change in the overall future fee the insurer expects to receive as a result of managing the participating pool of assets.

IFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will be significantly different from existing premium revenue measures, currently reported in the income statement.

Retrospective application of the standard is required for determining the CSM for the opening balance sheet. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. Choosing the appropriate approach and hence determining the opening balance sheet is one of the most critical activities in implementing the new standard, as the approach adopted will have a significant impact on the entity's results both on the initial impact on shareholders' funds at IFRS 17 adoption and on the future profits to be earned on the in-force business at the date of transition.

## A Background and critical accounting policies continued

### A3 Accounting policies continued

#### A3.2 New accounting pronouncements not yet effective continued

##### **IFRS 17 Implementation Programme**

The Group has commenced a Group-wide programme to implement IFRS 17 and IFRS 9 (as discussed above).

The requirements of IFRS 17 are complex and will have the effect of introducing fundamental changes to the existing IFRS 4 insurance accounting and require the application of significant judgement and new estimation techniques. As previously highlighted IFRS 9 could require reclassification of investments and the introduction of new and complex impairment models. The effect of changes required to the Group's accounting policies as a result of implementing these standards are currently uncertain, but these changes can be expected to, among other things, alter the timing of IFRS profit recognition. The implementation of this standard is also likely to involve significant enhancements to IT, actuarial and finance systems of the Group, and so will have an impact on the Group's expenses.

A Group-wide Steering Committee, chaired by the Group Chief Financial Officer and with participation from group's and business units' senior finance managers, provides oversight and strategic direction to the implementation programme. A number of sub-committees are also in place to provide governance over the technical interpretation and accounting policies selected, programme management and design and delivery of the project.

The key responsibilities of the programme include setting a framework for Group-wide accounting policies, determining additional data requirements, assessing the level of IT and finance system changes as well as establishing an appropriate work plan for determining the opening balance sheet. The work is at an early stage.

##### **Other new accounting pronouncements**

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

- Amendments to IFRS 2: Classification and measurement of share-based payment transactions, issued in June 2016 and effective from 1 January 2018;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, issued in December 2016 and effective from 1 January 2018;
- Amendments to IAS 40, Transfers of Investment Property, issued in December 2016 and effective from 1 January 2018;
- IFRIC Interpretation 23 Uncertainty over Income Taxes, issued June 2017 and effective from 1 January 2019;
- Annual Improvements to IFRSs 2015-2017 cycle; and
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, issued on 7 February 2018 and effective from 1 January 2019.

## B Earnings performance

### B1 Analysis of performance by segment

#### B1.1 Segment results – profit before tax

	Note	2017 £m		2016* £m		%	
			AER note (v)	CER note (v)	2017 vs 2016 AER note (v)	2017 vs 2016 CER note (v)	
<b>Asia</b>							
Insurance operations	B3(a)	1,799	1,503	1,571	20%	15%	
Asset management		176	141	149	25%	18%	
<b>Total Asia</b>		<b>1,975</b>	<b>1,644</b>	<b>1,720</b>	<b>20%</b>	<b>15%</b>	
<b>US</b>							
Jackson (US insurance operations)	B3(b)	2,214	2,052	2,156	8%	3%	
Asset management		10	(4)	(4)	350%	350%	
<b>Total US</b>		<b>2,224</b>	<b>2,048</b>	<b>2,152</b>	<b>9%</b>	<b>3%</b>	
<b>UK and Europe</b>							
UK and Europe insurance operations:	B3(c)						
Long-term business		861	799	799	8%	8%	
General insurance commission <sup>note (i)</sup>		17	29	29	(41)%	(41)%	
<b>Total UK and Europe insurance operations</b>		<b>878</b>	<b>828</b>	<b>828</b>	<b>6%</b>	<b>6%</b>	
UK and Europe asset management <sup>note (vi)</sup>		500	425	425	18%	18%	
<b>Total UK and Europe</b>		<b>1,378</b>	<b>1,253</b>	<b>1,253</b>	<b>10%</b>	<b>10%</b>	
<b>Total segment profit</b>		<b>5,577</b>	<b>4,945</b>	<b>5,125</b>	<b>13%</b>	<b>9%</b>	
Restructuring costs <sup>note (iii)</sup>		(103)	(38)	(39)	(171)%	(164)%	
<b>Other income and expenditure:</b>							
Investment return and other income		11	28	28	(61)%	(61)%	
Interest payable on core structural borrowings		(425)	(360)	(360)	(18)%	(18)%	
Corporate expenditure <sup>note (ii)</sup>		(361)	(334)	(340)	(8)%	(6)%	
Solvency II implementation costs		–	(28)	(28)	n/a	n/a	
<b>Total other income and expenditure</b>		<b>(775)</b>	<b>(694)</b>	<b>(700)</b>	<b>(12)%</b>	<b>(11)%</b>	
Interest received from tax settlement		–	43	43	n/a	n/a	
<b>Operating profit based on longer-term investment returns</b>		<b>4,699</b>	<b>4,256</b>	<b>4,429</b>	<b>10%</b>	<b>6%</b>	
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,563)	(1,678)	(1,764)	7%	11%	
Amortisation of acquisition accounting adjustments <sup>note (iv)</sup>		(63)	(76)	(79)	17%	20%	
Profit (loss) attaching to disposal of businesses	D1	162	(227)	(244)	n/a	n/a	
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61	–	–	n/a	n/a	
<b>Profit before tax</b>		<b>3,296</b>	<b>2,275</b>	<b>2,342</b>	<b>45%</b>	<b>41%</b>	
Tax charge attributable to shareholders' returns	B4	(906)	(354)	(360)	(156)%	(152)%	
<b>Profit for the year</b>		<b>2,390</b>	<b>1,921</b>	<b>1,982</b>	<b>24%</b>	<b>21%</b>	
<b>Attributable to:</b>							
Equity holders of the Company		2,389	1,921	1,982	24%	21%	
Non-controlling interests		1	–	–	N/A	N/A	
<b>Basic earnings per share (in pence)</b>							
Based on operating profit based on longer-term investment returns <sup>note (vii)</sup>	B5	145.2p	131.3p	136.8p	11%	6%	
Based on profit for the year		93.1p	75.0p	77.4p	24%	20%	

\* The 2016 comparative results have been re-presented from those previously published following the reassessment of the Group's operating segments as described in note B1.3.

## B Earnings performance continued

### B1 Analysis of performance by segment continued

#### B1.1 Segment results – profit before tax continued

##### Notes

- (i) General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.
- (ii) Corporate expenditure as shown above is primarily for Group Head Office and Asia Regional Head Office.
- (iii) Restructuring costs are incurred primarily in UK and Europe and Asia and represent business transformation and integration costs.
- (iv) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.
- (v) For definitions of AER and CER refer to note A1. The difference between 'Profit for the year attributable to shareholders' in the prior year on an AER basis and a CER basis is £61 million, arising from the retranslation of the prior year results of the Group's foreign subsidiaries into GBP using the exchange rates applied to the equivalent current year results.
- (vi) UK and Europe asset management operating profit based on longer-term investment returns:

	2017 £m	2016 £m
Asset management fee income	1,027	900
Other income	7	23
Staff costs	(400)	(332)
Other costs	(202)	(212)
Underlying profit before performance-related fees	432	379
Share of associate results	15	13
Performance-related fees	53	33
<b>Total UK and Europe asset management operating profit based on longer-term investment returns</b>	<b>500</b>	<b>425</b>

- (vii) Tax charges have been reflected as operating and non-operating in the same way as for pre-tax items. In 2017 a significant US tax reform package was enacted, and the effects of which in the income statement have been treated as non-operating. Further details are provided in note B4.

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

	2017 £m	2016 £m
Asia	(1)	(225)
US <sup>note (i)</sup>	(1,568)	(1,455)
UK and Europe <sup>note (ii)</sup>	(14)	206
Other operations <sup>note (iii)</sup>	20	(204)
<b>Total</b>	<b>(1,563)</b>	<b>(1,678)</b>

##### Notes

- (i) *US 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 £462 million as shown in note C5(b) (2016: £565 million) and comprise amounts in respect of the following items:

	2017 £m	2016 £m
Net equity hedge result <sup>note (a)</sup>	(1,490)	(1,587)
Other than equity-related derivatives <sup>note (b)</sup>	(36)	(126)
Debt securities <sup>note (c)</sup>	(73)	201
Equity-type investments: actual less longer-term return	12	35
Other items	19	22
<b>Total</b>	<b>(1,568)</b>	<b>(1,455)</b>

##### 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 in note B1.3(c) below. The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:
- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP as described in note B1.3 (c);
  - The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
  - Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.
- The net equity hedge result (net of related DAC) can be summarised as follows:

	2017 £m	2016 £m
Fair value movements on equity hedge instruments <sup>1</sup>	(1,871)	(1,786)
Accounting value movements on the variable and fixed index annuity guarantee liabilities <sup>2</sup>	(99)	(188)
Fee assessments net of claim payments	480	387
<b>Total</b>	<b>(1,490)</b>	<b>(1,587)</b>

- 1 Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options.
- 2 The accounting value movements on the variable and fixed index annuity guarantee liabilities reflect the impact of market movements and changes in economic and actuarial assumptions. These actuarial assumptions changes include, amongst other items, a charge (net of related DAC) of £359 million for strengthening policyholder utilisation and persistency rates offset by a benefit (net of related DAC) of £382 million from modelling refinements in the period, principally enhancements to how Jackson's own credit risk is incorporated in the fair valuation of these long-term liabilities.

## (b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued as explained in note B1.3; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

## (c) Short-term fluctuations related to debt securities

	2017 £m	2016 £m
Short-term fluctuations relating to debt securities		
(Charges) credits in the year:		
Losses on sales of impaired and deteriorating bonds	(3)	(94)
Defaults	-	(4)
Bond write-downs	(2)	(35)
Recoveries/reversals	10	15
Total credits (charges) in the year	5	(118)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns <sup>note</sup>	86	89
	91	(29)
Interest-related realised (losses) gains:		
(Losses) gains arising in the year	(43)	376
Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns	(140)	(135)
	(183)	241
Related amortisation of deferred acquisition costs	19	(11)
Total short-term fluctuations related to debt securities	(73)	201

**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 2017 is based on an average annual risk margin reserve of 21 basis points (2016: 21 basis points) on average book values of US\$55.3 billion (2016: US\$56.4 billion) as shown below:

	2017				2016			
	Average book value	RMR	Annual expected loss		Average book value	RMR	Annual expected loss	
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	US\$m	%	US\$m	£m	US\$m	%	US\$m	£m
A3 or higher	27,277	0.12	(33)	(25)	29,051	0.12	(36)	(27)
Baa1, 2 or 3	26,626	0.22	(58)	(45)	25,964	0.24	(62)	(46)
Ba1, 2 or 3	1,046	1.03	(11)	(8)	1,051	1.07	(11)	(8)
B1, 2 or 3	318	2.70	(9)	(7)	312	2.95	(9)	(7)
Below B3	23	3.78	(1)	(1)	40	3.81	(2)	(1)
Total	55,290	0.21	(112)	(86)	56,418	0.21	(120)	(89)
Related amortisation of deferred acquisition costs (see below)			21	15			23	17
Risk margin reserve charge to operating profit for longer-term credit-related losses			(91)	(71)			(97)	(72)

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 credit of £541 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2016: credit of £48 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 C3.2(b).

## (ii) UK and Europe operations

The negative short-term fluctuations in investment returns for UK and Europe operations of £(14) million (2016: positive £206 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

## (iii) Other operations

The positive short-term fluctuations in investment returns for other operations of £20 million (2016: negative £(204) million) include unrealised value movements on financial instruments.

## B Earnings performance continued

### B1 Analysis of performance by segment continued

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

##### Operating segments

The Group's operating segments for financial reporting are defined and presented in accordance with IFRS 8, 'Operating Segments' on the basis of the management reporting structure and its financial management information. Following the combination during the year of the Group's UK insurance business and M&G to form M&G Prudential, the Group has reassessed its operating segments.

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

In the prior year, the operating segments of the Group were each of the insurance operations in Asia, US and UK, and the asset management operations of Asia, US, M&G and Prudential Capital.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include Group Head Office and Asia Regional Head Office costs. Following the formation of M&G Prudential certain minor operations which were previously reported as 'Unallocated to a segment' are now included in the UK and Europe segment, reflecting the revised structure. Prudential Capital and Africa operations do not form part of any operating segment under the revised structure, and their assets and liabilities and loss before tax are not material to the overall financial position of the Group. Prudential Capital and Africa operations are therefore reported as 'Unallocated to a segment'.

Comparative segmental information for prior periods has been presented on a basis consistent with the current year.

##### 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. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below.
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Profit/loss attaching to businesses that have been sold in the year including, where relevant, the recycling of the cumulative translation gain or loss in respect of sold businesses.

#### Determination of operating profit based on longer-term investment returns 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 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, movements in liabilities for some types of business 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. For other types of Asia's non-participating business, expected longer-term investment returns are used to determine the movement in policyholder liabilities for determining operating results.



#### (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 unit-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. 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.

#### *Debt securities and loans*

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 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £855 million (2016: £969 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 separate accounts are principally relevant 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 derivatives 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, expected longer-term investment returns 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-backed operations amounted to £1,759 million as at 31 December 2017 (2016: £1,405 million). The rates of return applied in 2017 ranged from 4.3 per cent to 17.2 per cent (2016: 3.2 per cent to 13.9 per cent) with the rates applied varying by business unit. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each business unit. The assumptions are for the 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.

## B Earnings performance continued

### B1 Analysis of performance by segment continued

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

##### (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 (i):

- Fair value movements for equity-based derivatives;
- Fair value movements for embedded derivatives for the 'not for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) and fixed index annuity business, and Guaranteed Minimum Income Benefit (GMIB) reinsurance (see below);
- Movements in the accounts carrying value of Guaranteed Minimum Death Benefit (GMDB), GMIB and the 'for life' portion of GMWB liabilities (see below), 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 (ie they are relatively insensitive to the effect of current period equity market and interest rate changes);
- 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 the 'not for life' portion of GMWB and fixed index annuity business*

The 'not for life' portion of GMWB embedded derivative liabilities is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.

##### *Embedded derivatives for variable annuity guarantee minimum income benefit*

The GMIB liability, which is substantially 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. This accounting basis substantially does not recognise the effects of market movements. 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 GMIB 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 other 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 2017, the equity-type securities for US insurance non-separate account operations amounted to £946 million (2016: £1,323 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

	2017	2016
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.1% to 6.5%	5.5% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.1% to 8.5%	7.5% to 8.5%

#### **(d) UK and Europe 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 shareholder-backed annuity business within The Prudential Assurance Company Limited (PAC) 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;
- Credit experience compared with 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 with 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 and Europe 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.

## B Earnings performance continued

### B1 Analysis of performance by segment continued

#### B1.4 Segmental income statement

	2017 £m					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations) note (iii)	Group total
Gross premium earned	15,688	15,164	13,126	43,978	27	44,005
Outward reinsurance	(656)	(352)	(1,050)	(2,058)	(4)	(2,062)
Earned premiums, net of reinsurance	15,032	14,812	12,076	41,920	23	41,943
Other income from external customers note (ii)	307	669	1,406	2,382	48	2,430
Total revenue from external customers note (iv)	15,339	15,481	13,482	44,302	71	44,373
Intra-group revenue	40	64	5	109	(109)	–
Interest income note (iv)	932	2,085	3,413	6,430	67	6,497
Other investment return <sup>B1.5</sup>	8,063	16,448	11,171	35,682	10	35,692
Total revenue, net of reinsurance	24,374	34,078	28,071	86,523	39	86,562
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(18,291)	(31,205)	(23,025)	(72,521)	(11)	(72,532)
Acquisition costs and other operating expenditure <sup>B2</sup>	(4,052)	(2,257)	(3,379)	(9,688)	(477)	(10,165)
Interest on core structural borrowings	–	(16)	–	(16)	(409)	(425)
Disposal of Korea life business <sup>D1</sup>						
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income <sup>D1</sup>	61	–	–	61	–	61
Remeasurement adjustments	5	–	–	5	–	5
Gain on disposal of other businesses <sup>D1</sup>	–	162	–	162	–	162
Total charges, net of reinsurance and gain (loss) on disposal of businesses	(22,277)	(33,316)	(26,404)	(81,997)	(897)	(82,894)
Share of profit from joint ventures and associates, net of related tax	181	–	121	302	–	302
Profit (loss) before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> ) note (i)	2,278	762	1,788	4,828	(858)	3,970
Tax charge attributable to policyholders' returns	(250)	–	(424)	(674)	–	(674)
Profit (loss) before tax	2,028	762	1,364	4,154	(858)	3,296
<b>Analysis of operating profit</b>						
Operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	5,577	(878)	4,699
Short-term fluctuations in investment returns on shareholder-backed business	(1)	(1,568)	(14)	(1,583)	20	(1,563)
Amortisation of acquisition accounting adjustments	(7)	(56)	–	(63)	–	(63)
Profit attaching to the disposal of businesses	–	162	–	162	–	162
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income <sup>D1</sup>	61	–	–	61	–	61
Profit (loss) before tax	2,028	762	1,364	4,154	(858)	3,296

	2016* £m					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations) note (iii)	Group total
Gross premium earned	14,006	14,685	10,290	38,981	–	38,981
Outward reinsurance	(648)	(367)	(1,005)	(2,020)	–	(2,020)
Earned premiums, net of reinsurance	13,358	14,318	9,285	36,961	–	36,961
Other income from external customers note (ii)	253	684	1,346	2,283	87	2,370
Total revenue from external customers note (iv)	13,611	15,002	10,631	39,244	87	39,331
Intra-group revenue	27	53	4	84	(84)	–
Interest income note (iv)	875	2,151	4,517	7,543	104	7,647
Other investment return <sup>B1.5</sup>	2,042	5,461	17,578	25,081	(217)	24,864
Total revenue, net of reinsurance	16,555	22,667	32,730	71,952	(110)	71,842
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(11,442)	(20,214)	(27,710)	(59,366)	–	(59,366)
Acquisition costs and other operating expenditure <sup>B2</sup>	(3,684)	(1,913)	(2,813)	(8,410)	(438)	(8,848)
Interest on core structural borrowings	–	(15)	–	(15)	(345)	(360)
Remeasurement of carrying value of Korea life business classified as held for sale <sup>B1</sup>	(238)	–	–	(238)	–	(238)
Total charges, net of reinsurance and gain (loss) on disposal of business	(15,364)	(22,142)	(30,523)	(68,029)	(783)	(68,812)
Share of profit from joint ventures and associates, net of related tax	148	–	34	182	–	182
Profit (loss) before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> ) note (i)	1,339	525	2,241	4,105	(893)	3,212
Tax charge attributable to policyholders' returns	(155)	–	(782)	(937)	–	(937)
Profit (loss) before tax attributable to shareholders	1,184	525	1,459	3,168	(893)	2,275
<b>Analysis of operating profit</b>						
Operating profit (loss) based on longer-term investment returns	1,644	2,048	1,253	4,945	(689)	4,256
Short-term fluctuations in investment returns on shareholder-backed business	(225)	(1,455)	206	(1,474)	(204)	(1,678)
Amortisation of acquisition accounting adjustments	(8)	(68)	–	(76)	–	(76)
Loss attaching to the held for sale Korea life business <sup>B1</sup>	(227)	–	–	(227)	–	(227)
Profit (loss) before tax	1,184	525	1,459	3,168	(893)	2,275

\* The 2016 comparative results have been re-presented from those previously published following the reassessment of the Group's operating segments as described in note B1.3.

#### Notes

- (i) This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.
- (ii) Other income from external customers includes £7 million (2016: £8 million) relating to financial instruments that are not held at fair value through profit or loss. These fees primarily related to prepayment fees, late fees and syndication fees.
- (iii) Unallocated to a segment includes central operations (Group and Asia Regional Head Offices and Group borrowings), Prudential Capital and Africa operations. In addition, this column includes intra-group eliminations, including the elimination of the intra-group reinsurance contract between the UK with-profits and Asia with-profits operations.
- (iv) Interest income includes £3 million (2016: £3 million) accrued in respect of impaired securities.
- (v) In Asia, revenue from external customers from no individual market exceeds 10 per cent of the Group total except for Hong Kong in 2017 (2016: no individual market exceeded 10 per cent except for Hong Kong). Total revenue from external customers of Hong Kong is £7,269 million (2016: £6,313 million).
- (vi) Due to the nature of the business of the Group, there is no reliance on any major customers.

## B Earnings performance continued

### B1 Analysis of performance by segment continued

#### B1.5 Other investment return

	2017 £m	2016 £m
Realised and unrealised gains on securities at fair value through profit or loss	33,121	28,489
Realised and unrealised (losses) on derivatives at fair value through profit or loss	(1,624)	(7,050)
Realised (losses) gains on available-for-sale securities, previously recognised in other comprehensive income*	(26)	270
Realised gains on loans	9	91
Dividends	2,654	2,283
Other investment income	1,558	781
Other investment return	35,692	24,864

\* Including impairment.

Realised gains and losses on the Group's investments for 2017 recognised in the income statement amounted to a net gain of £5.7 billion (2016: a net loss of £1.6 billion).

#### B1.6 Additional analysis of performance by segment components

##### B1.6(a) Asia

	2017 £m				2016* £m
	Insurance	Asset management	Eliminations	Total	Total
Earned premiums, net of reinsurance	15,032	–	–	15,032	13,358
Other income from external customers	95	212	–	307	253
Total revenue from external customers	15,127	212	–	15,339	13,611
Intra-group revenue	–	148	(108)	40	27
Interest income	930	2	–	932	875
Other investment return	8,060	3	–	8,063	2,042
Total revenue, net of reinsurance	24,117	365	(108)	24,374	16,555
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(18,291)	–	–	(18,291)	(11,442)
Acquisition costs and other operating expenditure <sup>B2</sup>	(3,911)	(249)	108	(4,052)	(3,684)
Disposal of Korea life business: <sup>D1</sup>					
Cumulative exchange gain recycled from other comprehensive income	61	–	–	61	–
Remeasurement adjustments	5	–	–	5	(238)
Total charges, net of reinsurance and gain (loss) on disposal of businesses	(22,136)	(249)	108	(22,277)	(15,364)
Share of profit from joint ventures and associates, net of related tax	121	60	–	181	148
Profit before tax (being tax attributable to shareholders' and policyholders' returns)	2,102	176	–	2,278	1,339
Tax charge attributable to policyholders' returns	(250)	–	–	(250)	(155)
Profit before tax attributable to shareholders	1,852	176	–	2,028	1,184
<b>Analysis of operating profit</b>					
Operating profit based on longer-term investment returns	1,799	176	–	1,975	1,644
Short-term fluctuations in investment returns on shareholder-backed business	(1)	–	–	(1)	(225)
Amortisation of acquisition accounting adjustments	(7)	–	–	(7)	(8)
Loss attaching to disposal of businesses	–	–	–	–	(227)
Cumulative exchange gain on the sold Korea life business <sup>D1</sup>	61	–	–	61	–
Profit before tax attributable to shareholders	1,852	176	–	2,028	1,184

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

**B1.6(b) US**

	2017 £m				2016* £m
	Insurance	Asset management†	Eliminations	Total	Total
Earned premiums, net of reinsurance	14,812	–	–	14,812	14,318
Other income from external customers	4	665	–	669	684
Total revenue from external customers	14,816	665	–	15,481	15,002
Intra-group revenue	–	115	(51)	64	53
Interest income	2,085	–	–	2,085	2,151
Other investment return	16,448	–	–	16,448	5,461
Total revenue, net of reinsurance	33,349	780	(51)	34,078	22,667
Benefits and claims	(31,205)	–	–	(31,205)	(20,214)
Interest on core structural borrowings	(16)	–	–	(16)	(15)
Acquisition costs and other operating expenditure <sup>B2</sup>	(1,538)	(770)	51	(2,257)	(1,913)
Gain on disposal of businesses <sup>D1</sup>	–	162	–	162	–
Total charges, net of reinsurance and gain on disposal of businesses	(32,759)	(608)	51	(33,316)	(22,142)
Profit before tax	590	172	–	762	525
<b>Analysis of operating profit</b>					
Operating profit based on longer-term investment returns	2,214	10	–	2,224	2,048
Short-term fluctuations in investment returns on shareholder-backed business	(1,568)	–	–	(1,568)	(1,455)
Amortisation of acquisition accounting adjustments	(56)	–	–	(56)	(68)
Profit attaching to the disposal of businesses	–	162	–	162	–
Profit before tax	590	172	–	762	525

\*The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

† The US total revenue includes asset management gross revenue of £780 million (2016: £785 million), including £542 million of NPH broker-dealer fees (2016: £550 million), and asset management gross charges of £770 million (2016: £789 million), including £542 million (2016: £550 million) of NPH broker-dealer fees.

## B Earnings performance continued

### B1 Analysis of performance by segment continued

#### B1.6 Additional analysis of performance by segment components continued

##### B1.6(c) UK and Europe

	2017 £m				2016* £m
	Insurance	Asset management†	Eliminations	Total	Total
Earned premiums, net of reinsurance	12,076	–	–	12,076	9,285
Other income from external customers	241	1,165	–	1,406	1,346
Total revenue from external customers	12,317	1,165	–	13,482	10,631
Intra-group revenue	–	271	(266)	5	4
Interest income	3,412	1	–	3,413	4,517
Other investment return	11,164	7	–	11,171	17,578
Total revenue, net of reinsurance	26,893	1,444	(266)	28,071	32,730
Benefits and claims and movements in unallocated surplus of with-profits funds, net of reinsurance	(23,025)	–	–	(23,025)	(27,710)
Acquisition costs and other operating expenditure <sup>B2</sup>	(2,692)	(953)	266	(3,379)	(2,813)
Total charges, net of reinsurance	(25,717)	(953)	266	(26,404)	(30,523)
Share of profit from joint ventures and associates, net of related tax	106	15	–	121	34
Profit before tax (being tax attributable to shareholders' and policyholders' returns)	1,282	506	–	1,788	2,241
Tax charge attributable to policyholders' returns	(424)	–	–	(424)	(782)
Profit before tax	858	506	–	1,364	1,459
<b>Analysis of operating profit</b>					
Operating profit based on longer-term investment returns	878	500	–	1,378	1,253
Short-term fluctuations in investment returns on shareholder-backed business	(20)	6	–	(14)	206
Profit before tax	858	506	–	1,364	1,459

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

† The revenue for UK and Europe asset management of £1,087 million (2016: £956 million), comprising the amounts for asset management fee income, other income and performance-related fees shown in note B1.1(vi), is different to the amount of £1,444 million shown in the table above. This is because the £1,087 million (2016: £956 million) is after deducting commissions which would have been included as charges in the table above. The difference in the presentation of commission is aligned with how management reviews the business. For further information see note B1.1.



## B2 Acquisition costs and other expenditure

	2017 £m	2016 £m
Acquisition costs incurred for insurance policies	(3,712)	(3,687)
Acquisition costs deferred less amortisation of acquisition costs	911	923
Administration costs and other expenditure	(6,380)	(5,522)
Movements in amounts attributable to external unit holders of consolidated investment funds	(984)	(562)
<b>Total acquisition costs and other expenditure</b>	<b>(10,165)</b>	<b>(8,848)</b>

Total acquisition costs and other expenditure includes:

- Total depreciation and amortisation expense of £(288) million (2016: £(242) million) is included in 'Administration costs and other expenditure' and relates primarily to amortisation of deferred acquisition costs of insurance contracts and asset management contracts.
- The charge for non-deferred acquisition costs and the amortisation of those costs that are deferred was £(2,801) million (2016: £(2,764) million). These amounts comprise £(2,772) million and £(29) million for insurance and investment contracts respectively (2016: £(2,734) million and £(30) million respectively).
- Movements in amounts attributable to external unit holders are in respect of those OEICs and unit trusts which are required to be consolidated and comprise a charge of £(719) million (2016: £(485) million) for UK and Europe insurance operations and a charge of £(265) million (2016: £(77) million) for Asia insurance operations.
- There were no fee expenses relating to financial liabilities held at amortised cost included in acquisition costs in 2017 and 2016.
- The segmental analysis of interest expense (other than interest expense in core structural borrowings) and depreciation and amortisation included within total acquisition costs and other expenditure was as follows:

	Other interest expense		Depreciation and amortisation	
	2017 £m	2016* £m	2017 £m	2016* £m
Asia:				
Insurance	–	–	(230)	(201)
Asset management	–	–	(3)	(2)
US:				
Insurance	(116)	(56)	20	94
Asset management	–	–	(7)	(3)
UK and Europe:				
Insurance	(85)	(102)	(59)	(121)
Asset management	–	–	(7)	(7)
<b>Total segment</b>	<b>(201)</b>	<b>(158)</b>	<b>(286)</b>	<b>(240)</b>
Unallocated to a segment (other operations)	(39)	(27)	(2)	(2)
<b>Group total</b>	<b>(240)</b>	<b>(185)</b>	<b>(288)</b>	<b>(242)</b>

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

### B2.1 Staff and employment costs

The average number of staff employed by the Group during the year was:

	2017	2016
Business operations:		
Asia	15,477	15,439
US	4,564	4,447
UK and Europe*	7,110	6,381
<b>Total</b>	<b>27,151</b>	<b>26,267</b>

\* The UK and Europe staff numbers include staff from central operations and Africa which are unallocated to a segment.

## B Earnings performance continued

### B2 Acquisition costs and other expenditure continued

#### B2.1 Staff and employment costs continued

The costs of employment were:

	2017 £m	2016 £m
Business operations:		
Wages and salaries	1,774	1,483
Social security costs	129	110
Pension costs:		
Defined benefit schemes*	(3)	213
Defined contribution schemes	85	79
<b>Total</b>	<b>1,985</b>	<b>1,885</b>

\* The (credit) charge incorporates the effect of actuarial gains and losses.

#### B2.2 Share-based payment

##### (a) Description of the plans

The Group operates a number of share award and share option plans that provides Prudential plc shares to participants upon vesting. The plans in operation include the Prudential Long Term Incentive Plan (PLTIP), Annual Incentive Plan (AIP), savings-related share option schemes, share purchase plans and deferred bonus plans. Some of these plans are participated in by Executive Directors, the details of which are described in the Directors' remuneration report. In addition, the following information is provided.

Share scheme	Description
<b>Prudential Corporation Asia Long-Term Incentive Plan (PCA LTIP)</b>	The PCA LTIP provides eligible employees with conditional awards. Awards are discretionary and on a year-by-year basis determined by Prudential's full year financial results and the employee's contribution to the business. Awards vest after three years subject to the employee being in employment. Vesting of awards may also be subject to performance conditions. All awards are made in Prudential shares, or ADRs, except for countries where share awards are not feasible due to securities and/or tax reasons, where awards will be replaced by the cash value of the shares that would otherwise have vested.
<b>Prudential Agency Long-Term Incentive Plan</b>	Certain agents in Asia are eligible to be granted awards under the Prudential Agency Long-Term Incentive Plan. These awards are structured in a similar way to the PCA LTIP described above.
<b>Restricted Share Plan (RSP)</b>	The Company operates the RSP for certain employees. Awards under this plan are discretionary, and the vesting of awards may be subject to performance conditions. All awards are made in Prudential shares or ADRs.
<b>Deferred bonus plans</b>	The Company operates a number of deferred bonus schemes including the Group Deferred Bonus Plan (GDBP), the Prudential Corporation Asia Deferred Bonus Plan (PCA DBP), the Prudential Capital Deferred Bonus Plan (PruCap DBP) and other arrangements. There are no performance conditions attached to deferred share awards made under these arrangements.
<b>Savings-related share option schemes</b>	Employees and eligible agents in a number of geographies are eligible for plans similar to the HMRC-approved Save As You Earn (SAYE) share option scheme in the UK. Eligible employees participate in the international savings-related share option scheme while eligible agents based in certain regions of Asia can participate in the non-employee savings-related share option scheme.
<b>Share purchase plans</b>	Eligible employees outside the UK are invited to participate in arrangements similar to the Company's HMRC-approved UK SIP, which allows the purchase of Prudential plc shares. Staff based in Ireland are eligible to participate in the Share Participation Plan. Staff based in Asia are eligible to participate in the Prudential Corporation Asia All Employee Share Purchase Plan.

## (b) Outstanding options and awards

The following table shows movement in outstanding options and awards under the Group's share-based compensation plans at 31 December 2017 and 2016:

	Options outstanding under SAYE schemes				Awards outstanding under incentive plans including conditional options	
	2017		2016		2017	2016
	Number of options millions	Weighted average exercise price £	Number of options millions	Weighted average exercise price £	Number of awards millions	
Beginning of year:	7.1	10.74	8.8	9.44	30.2	28.4
Granted	1.4	14.55	1.4	11.04	12.7	13.9
Exercised	(1.7)	10.07	(2.0)	7.30	(7.3)	(10.5)
Forfeited	(0.1)	10.83	(0.1)	9.95	(1.3)	(1.5)
Cancelled	(0.2)	11.19	(0.8)	6.45	(0.1)	(0.1)
Lapsed/Expired	(0.1)	10.86	(0.2)	9.64	(0.6)	–
End of year	6.4	11.74	7.1	10.74	33.6	30.2
Options immediately exercisable, end of year	0.4	11.06	0.6	8.53		

The weighted average share price of Prudential plc for the year ended 31 December 2017 was £17.51 compared to £13.56 for the year ended 31 December 2016.

The following table provides a summary of the range of exercise prices for Prudential plc options outstanding at 31 December.

	Outstanding						Exercisable			
	Number outstanding (millions)		Weighted average remaining contractual life (years)		Weighted average exercise prices £		Number exercisable (millions)		Weighted average exercise prices £	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Between £4 and £5	–	0.1	–	0.4	–	4.66	–	0.1	–	4.66
Between £6 and £7	–	0.2	0.4	1.4	6.29	6.29	–	–	6.29	6.29
Between £9 and £10	0.5	1.1	1.4	1.4	9.01	9.01	–	0.5	–	9.01
Between £11 and £12	4.5	5.7	2.2	2.9	11.21	11.27	0.4	–	11.55	–
Between £14 and £15	1.4	–	3.9	–	14.55	–	–	–	–	–
	6.4	7.1	2.5	2.6	11.74	10.74	0.4	0.6	11.06	8.53

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

## (c) Fair value of options and awards

The fair value amounts estimated on the date of grant relating to all options and awards, were determined by using the following assumptions:

	2017			2016		
	Prudential LTIP/RSP (TSR)	SAYE options	Other awards	Prudential LTIP (TSR)	SAYE options	Other awards
Dividend yield (%)	–	2.85	–	–	3.19	–
Expected volatility (%)	23.17	20.15	–	29.36	25.41	–
Risk-free interest rate (%)	0.62	0.56	–	0.12	0.15	–
Expected option life (years)	–	3.49	–	–	3.70	–
Weighted average exercise price (£)	–	14.55	–	–	11.04	–
Weighted average share price at grant date (£)	16.80	17.74	–	12.82	13.94	–
Weighted average fair value at grant date (£)	8.30	3.29	16.12	4.41	3.05	12.57

## B Earnings performance continued

### B2 Acquisition costs and other expenditure continued

#### B2.2 Share-based payment continued

The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods. The Group uses the Black-Scholes model to value all options and awards other than those which have TSR performance conditions attached (some Prudential LTIP and RSP awards) for which the Group uses a Monte Carlo model in order to allow for the impact of these conditions. These models are used to calculate fair values for share options and awards at the grant date based on the quoted market price of the stock at the measurement date, the amount, if any, that the employees are required to pay, the dividend yield, expected volatility, risk-free interest rates and exercise prices.

For all options and awards, the expected volatility is based on the market implied volatilities as quoted on Bloomberg. The Prudential specific at-the-money implied volatilities are adjusted to allow for the different terms and discounted exercise price on SAYE options by using information on the volatility surface of the FTSE 100.

Risk-free interest rates are taken from government bond spot rates with projections for two-year, three-year and five-year terms to match corresponding vesting periods. Dividend yields are determined as the average yield over a period of 12 months up to and including the date of grant. For awards with a TSR condition, volatilities and correlations between Prudential and a basket of 15 competitor companies is required. For grants in 2017, the average volatility for the basket of competitors was 22.93 per cent. Correlations for the basket are calculated for each pairing from the log of daily TSR returns for the three years prior to the valuation date. Market implied volatilities are used for both Prudential and the basket of competitors. Changes to the subjective input assumptions could materially affect the fair value estimate.

#### (d) Share-based payment expense charged to the income statement

Total expense recognised in the year in the consolidated financial statements relating to share-based compensation is as follows:

	2017 £m	2016 £m
Share-based compensation expense	158	126
Amount accounted for as equity-settled	158	127

The group has no liabilities outstanding at the year-end relating to awards which are settled in cash.

#### B2.3 Key management remuneration

Key management constitutes the directors of Prudential plc as they have authority and responsibility for planning, directing and controlling the activities of the Group.

Total key management remuneration is analysed in the following table:

	2017 £m	2016 £m
Salaries and short-term benefits	17.9	20.7
Post-employment benefits	1.3	1.3
Share-based payments	14.1	18.7
	33.3	40.7

The share-based payments charge comprises £8.3 million (2016: £12.9 million), which is determined in accordance with IFRS 2, 'Share-based Payment' (see note B2.2) and £5.8 million (2016: £5.8 million) of deferred share awards.

Total key management remuneration includes total Directors' remuneration of £40.2 million (2016: £37.9 million) less LTIP releases of £15.2 million (2016: £10.1 million) as shown in the Directors' remuneration table and related footnotes in the Directors' remuneration report. Further information on Directors' remuneration is given in the Directors' remuneration report.

#### B2.4 Fees payable to the auditor

	2017 £m	2016 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.1	2.0
Fees payable to the Company's auditor and its associates for other services:		
Audit of subsidiaries pursuant to legislation	8.3	7.5
Audit-related assurance services	4.3	3.9
Tax compliance services	–	0.1
Other assurance services	1.5	2.1
Services relating to corporate finance transactions	0.4	–
All other services	0.7	0.6
Total fees paid to the auditor	17.3	16.2

In addition, there were fees incurred by pension schemes of £0.1 million (2016: £0.1 million) for audit services and £nil million (2016: £0.1 million) for other assurance services.

### B3 Effect of changes and other accounting matters on insurance assets and liabilities

The following matters are relevant to the determination of the 2017 results:

#### (a) Asia insurance operations

In 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £75 million (2016: £67 million) representing a small number of individually minor items.

#### (b) US insurance operations

Changes in the policyholder liabilities held for variable and fixed index annuity guarantees are reported as part of non-operating profit and are as described in note B1.2.

#### (c) UK and Europe insurance operations

##### *Annuity business*

##### **Allowance for credit risk**

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults.

The IFRS credit risk allowance made for the UK shareholder-backed fixed and linked annuity business equated to 42 basis points at 31 December 2017 (2016: 43 basis points). The allowance represented 28 per cent of the bond spread over swap rates (2016: 26 per cent).

The reserves for credit risk allowance at 31 December 2017 for the UK shareholder-backed business were £1.6 billion (2016: £1.7 billion).

##### **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 2017, was a credit of £173 million (2016: credit of £16 million). This included, amongst other items, a benefit to IFRS operating profit based on longer-term investment returns of £204 million, relating to changes to annuitant mortality assumptions primarily reflecting the adoption of the Continuous Mortality Investigation (CMI) 2015 model. Further information on changes to mortality assumptions is given in note C4.1(d).

##### **Longevity reinsurance and other management actions**

A number of management actions were taken in 2017 to improve the solvency position of the UK and Europe insurance operations and further mitigate market risk, which have generated combined profits of £276 million. Similar actions were also taken in 2016 and 2015.

Of this amount £31 million related to profit from an additional longevity reinsurance transactions covering £0.5 billion of annuity liabilities on an IFRS basis, with the balance of £245 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance and other management actions in 2016 was £332 million (of which £197 million related to longevity reinsurance transactions covering £5.4 billion of IFRS annuity liabilities).

At 31 December 2017, longevity reinsurance covered £14.4 billion of IFRS annuity liabilities equivalent to 44 per cent of total annuity liabilities (2016: £14.4 billion, 42 per cent).

##### **With-profits sub-fund**

For the with-profits sub-fund, the aggregate effect of assumption changes in 2017 was a net charge to unallocated surplus of £58 million (2016: net charge of £78 million).

## B Earnings performance continued

### B4 Tax charge

On 22 December 2017, a significant US tax reform package, the Tax Cuts and Jobs Act, was enacted into law effective from 1 January 2018. The tax reform package as a whole, which includes a reduction in the corporate income tax rate from 35 per cent to 21 per cent, and a number of specific measures affecting US life insurers, is expected to be beneficial in the longer term. However in 2017 the changes have had an adverse impact on the tax charge attributable to shareholders in the Group's US operations and a benefit to policyholders in the with-profits fund of the UK and Europe operations, due to the requirement to remeasure deferred tax balances at the new 21 per cent rate. The 2017 impacts on the Group's income statement and on other comprehensive income of the US tax changes are set out below and the impact on the balance sheet are set out in note C8.

#### (a) Total tax charge by nature of expense

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

Tax charge	2017 £m			2016 £m
	Current tax	Deferred tax	Total	Total
Attributable to shareholders:				
Asia operations	(164)	(89)	(253)	(256)
US operations	56	(564)	(508)	66
UK and Europe	(302)	35	(267)	(275)
Other operations	122	–	122	111
Tax charge attributable to shareholders' returns	(288)	(618)	(906)	(354)
Attributable to policyholders:				
Asia operations	(92)	(157)	(249)	(155)
UK and Europe	(316)	(109)	(425)	(782)
Tax charge attributable to policyholders' returns	(408)	(266)	(674)	(937)
<b>Total tax charge</b>	<b>(696)</b>	<b>(884)</b>	<b>(1,580)</b>	<b>(1,291)</b>

The principal reason for the increase in the tax charge attributable to shareholders' returns is a £445 million deferred tax charge arising on the remeasurement of the US net deferred tax assets from 35 per cent to 21 per cent. The principal reason for the decrease in the tax charge attributable to policyholders' returns is a smaller increase in deferred tax liabilities on unrealised gains on investments in the with-profits fund of UK and Europe compared to 2016, combined with a £92 million credit following the remeasurement of US net deferred tax liabilities in the same with-profits fund.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in (b) below. The tax charge attributable to policyholders of £674 million above is equal to the profit before tax attributable to policyholders of £674 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis.

The total tax charge comprises:

	2017 £m	2016 £m
Current tax expense:		
Corporation tax	(746)	(1,464)
Adjustments in respect of prior years	50	87
<b>Total current tax charge</b>	<b>(696)</b>	<b>(1,377)</b>
Deferred tax arising from:		
Origination and reversal of temporary differences	(531)	64
Impact of changes in local statutory tax rates	(353)	6
Credit in respect of a previously unrecognised tax loss, tax credit or temporary difference from a prior period	–	16
<b>Total deferred tax (charge) credit</b>	<b>(884)</b>	<b>86</b>
<b>Total tax charge</b>	<b>(1,580)</b>	<b>(1,291)</b>

The reduction in the corporation tax expense from £1,464 million in 2016 to £746 million in 2017 principally relates to US operations where a higher tax deduction arises in 2017 as compared to 2016 in respect of derivative losses.

The 2017 impact of changes in local statutory tax rates relates to the remeasurement of US deferred tax balances following US tax reform attributable to both shareholders and policyholders.

The current tax charge of £696 million (2016: £1,377 million) includes £59 million (2016: £53 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 deferred tax (charge) credit arises as follows:

	2017 £m	2016 £m
Short-term temporary differences	(526)	573
Unrealised gains and losses on investments	(185)	(437)
Balances relating to investment and insurance contracts	(156)	(90)
Unused tax losses	(12)	36
Capital allowances	(5)	4
<b>Deferred tax (charge) credit</b>	<b>(884)</b>	<b>86</b>

The movement in the short-term temporary differences from a credit in 2016 of £573 million to a charge in 2017 of £526 million principally relates to the US operations due to the combination of the £445 million charge relating to the remeasurement of the deferred tax balances following the US tax reform changes and a £695 million deferred tax charge relating to the amortisation of US operations derivative losses, which are spread across three years for tax purposes. The unrealised gains and losses on investments charge is after including the £92 million benefit from remeasurement of deferred tax balances on unrealised gains of US investments in the with-profits funds of UK and Europe operations.

In 2017, a tax charge of £75 million (2016: credit of £10 million) attributable to shareholders has been taken through other comprehensive income. The 2017 charge includes a £190 million deferred tax charge primarily on unrealised gains on bonds held in the US operations partly offset by £134 million benefit relating to the remeasurement of US net deferred tax liabilities on the bonds.

## B Earnings performance continued

### B4 Tax charge continued

#### (b) Reconciliation of shareholder effective tax rate

In the reconciliation below, the expected tax rates reflect the corporation tax rates that are expected to apply to the taxable profit of the relevant business. Where there are profits of more than one jurisdiction the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit contributing to the aggregate business result.

	2017 £m					Percentage impact on ETR
	Asia operations	US operations	UK and Europe	Other* operations	Total attributable to shareholders	
Operating profit (loss) based on longer-term investment returns	1,975	2,224	1,378	(878)	4,699	
Non-operating profit (loss)	53	(1,462)	(14)	20	(1,403)	
Profit (loss) before tax	2,028	762	1,364	(858)	3,296	
Expected tax rate	21%	35%	19%	19%	24%	
Tax at the expected rate	426	267	259	(163)	789	23.9%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(64)	(11)	(2)	(14)	(91)	(2.8%)
Deductions not allowable for tax purposes	26	6	13	10	55	1.7%
Items related to taxation of life insurance businesses	(92)	(238)	(2)	–	(332)	(10.1%)
Deferred tax adjustments	11	17	(1)	(5)	22	0.7%
Effect of results of joint ventures and associates	(52)	–	(3)	–	(55)	(1.7%)
Irrecoverable withholding taxes	–	–	–	54	54	1.6%
Other	(10)	–	6	(1)	(5)	(0.1%)
Total	(181)	(226)	11	44	(352)	(10.7%)
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	(3)	(15)	(3)	(3)	(24)	(0.7%)
Movements in provisions for open tax matters	19	25	–	–	44	1.3%
Impact of US tax reform	–	445	–	–	445	13.5%
Adjustments in relation to business disposals	(8)	12	–	–	4	0.1%
Total	8	467	(3)	(3)	469	14.2%
Total actual tax charge (credit)	253	508	267	(122)	906	27.4%
Analysed into:						
Tax on operating profit based on longer-term investment returns	276	548	268	(121)	971	
Tax on non-operating profit	(23)	(40)	(1)	(1)	(65)	
Actual tax rate:						
Operating profit based on longer-term investment returns:						
Including non-recurring tax reconciling items	14%	25%	19%	14%	21%	
Excluding non-recurring tax reconciling items	13%	24%	20%	13%	20%	
Total profit	12%	67%	20%	14%	27%	

\* Other operations include restructuring costs.



The more significant reconciling items are explained below:

#### **Income not taxable or taxable at concessionary rates**

£26 million of the £64 million reconciling item in Asia operations is due to non-taxable gains on domestic securities in Taiwan (no equivalent amount in 2016) with the balance principally relating to income taxable at rates lower than the expected rates in Malaysia and Singapore.

#### **Items related to taxation of life insurance businesses**

The £92 million reconciling item in Asia operations reflects where the basis of tax is not the accounting profits, primarily in:

- Hong Kong where the taxable profit is based on the net insurance premiums; and
- Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

It is higher than the 2016 adjustment of £20 million due to a larger proportion of profits attributable to Hong Kong.

The £238 million (full year 2016: £159 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. US tax reform changes effective from 1 January 2018 are expected to reduce the level of this deduction from 2018 onwards.

#### **Effects of results of joint ventures and associates**

The £55 million reconciling item arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge.

#### **Irrecoverable withholding taxes**

The £54 million adverse reconciling items reflects withholding taxes on dividends paid by certain non-UK subsidiaries, principally Indonesia, to the UK. The dividends are exempt from UK tax and consequently the withholding tax cannot be offset against UK tax payments.

#### **Movements in provisions for open tax matters**

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

	£m
At 1 January 2017	(89)
Movements in the current period included in:	
Tax charge attributable to shareholders	(44)
Other movements*	(6)
At 31 December 2017	(139)

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

## B Earnings performance continued

### B4 Tax charge continued

#### Impact of US tax reform

As noted earlier, the reduction in the US corporate income tax rate from 35 per cent to 21 per cent from 1 January 2018 was substantively enacted on 22 December 2017, giving rise to a £445 million unfavourable reconciling item in US operations relating to the remeasurement of the net deferred tax asset attributable to shareholders. Separately, a £134 million benefit has been recognised in other comprehensive income. Further detail on the impact of US tax reform is provided in note C8.

	2016 <sup>†</sup> £m					Percentage impact on ETR
	Asia operations	US operations	UK and Europe	Other* operations	Total attributable to shareholders	
Operating profit (loss) based on longer-term investment returns	1,644	2,048	1,253	(689)	4,256	
Non-operating (loss) profit	(460)	(1,523)	206	(204)	(1,981)	
Profit (loss) before tax	1,184	525	1,459	(893)	2,275	
Expected tax rate	22%	35%	20%	20%	24%	
Tax at the expected rate	260	184	292	(179)	557	24.4%
Effects of recurring tax reconciliation items:						
Income not taxable or taxable at concessionary rates	(31)	(18)	(13)	(5)	(67)	(2.9%)
Deductions not allowable for tax purposes	20	8	10	22	60	2.6%
Items related to taxation of life insurance businesses	(20)	(159)	(1)	–	(180)	(7.9%)
Deferred tax adjustments	(11)	–	2	(14)	(23)	(1.0%)
Effect of results of joint ventures and associates	(44)	–	(2)	–	(46)	(2.0%)
Irrecoverable withholding taxes	–	–	–	36	36	1.6%
Other	3	–	–	(7)	(4)	(0.1%)
Total	(83)	(169)	(4)	32	(224)	(9.7%)
Effects of non-recurring tax reconciliation items:						
Adjustments to tax charge in relation to prior years	1	(81)	(7)	5	(82)	(3.6%)
Movements in provisions for open tax matters	20	–	–	31	51	2.2%
Impact of changes in local statutory tax rates	–	–	(6)	–	(6)	(0.2%)
Write-down of Korea life business	58	–	–	–	58	2.5%
Total	79	(81)	(13)	36	21	0.9%
Total actual tax charge (credit)	256	(66)	275	(111)	354	15.6%
Analysed into:						
Tax on operating profit based on longer-term investment returns	271	467	244	(88)	894	
Tax on non-operating profit	(15)	(533)	31	(23)	(540)	
Actual tax rate:						
Operating profit based on longer-term investment returns:						
Including non-recurring tax reconciling items	16%	23%	19%	13%	21%	
Excluding non-recurring tax reconciling items	15%	27%	21%	18%	22%	
Total profit	22%	(13)%	19%	12%	16%	

\* Other operations include restructuring costs.

† The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

The 2016 expected and actual tax rates as shown include the impact of the re-measurement loss on the held for sale Korea life business. The 2016 tax rates for Asia operations and Group, excluding the impact of the held for sale Korea life business are as follows:

	Asia operations	Attributable to shareholders
Expected tax rate on total profit	22%	24%
Actual tax rate:		
Operating profit based on longer-term investment returns	16%	21%
Total profit	18%	14%

## B5 Earnings per share

2017						
	Before tax B1.1 £m	Tax B4 £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Note						
Based on operating profit based on longer-term investment returns	4,699	(971)	(1)	3,727	145.2p	145.1p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2 (1,563)	572	–	(991)	(38.6)p	(38.6)p
Amortisation of acquisition accounting adjustments	(63)	20	–	(43)	(1.7)p	(1.7)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1 61	–	–	61	2.4p	2.4p
Profit attaching to disposal of businesses	D1 162	(82)	–	80	3.1p	3.1p
Impact of US tax reform	B4 –	(445)	–	(445)	(17.3)p	(17.3)p
Based on profit for the year	3,296	(906)	(1)	2,389	93.1p	93.0p
2016						
	Before tax B1.1 £m	Tax B4 £m	Non- controlling interests £m	Net of tax and non- controlling interests £m	Basic earnings per share Pence	Diluted earnings per share Pence
Note						
Based on operating profit based on longer-term investment returns	4,256	(894)	–	3,362	131.3p	131.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2 (1,678)	519	–	(1,159)	(45.3)p	(45.2)p
Loss attaching to held for sale Korea life business	D1 (227)	(4)	–	(231)	(9.0)p	(9.0)p
Amortisation of acquisition accounting adjustments	(76)	25	–	(51)	(2.0)p	(2.0)p
Based on profit for the year	2,275	(354)	–	1,921	75.0p	75.0p

## B Earnings performance continued

### B5 Earnings per share continued

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:

	2017 millions	2016 millions
Weighted average number of shares for calculation of:		
Basic earnings per share	2,567	2,560
Shares under option at end of year	6	7
Number of shares that would have been issued at fair value on assumed option price	(5)	(5)
Diluted earnings per share	2,568	2,562

### B6 Dividends

	2017		2016	
	Pence per share	£m	Pence per share	£m
Dividends relating to reporting year:				
First interim ordinary dividend	14.50p	375	12.93p	333
Second interim ordinary dividend	32.50p	841	30.57p	789
Total	47.00p	1,216	43.50p	1,122
Dividends paid in reporting year:				
Current year first interim ordinary dividend	14.50p	373	12.93p	332
Second interim ordinary dividend for prior year	30.57p	786	26.47p	679
Special dividend	–	–	10.00p	256
Total	45.07p	1,159	49.40p	1,267

#### Dividend per share

For the year ended 31 December 2016 the second interim ordinary dividend of 30.57 pence per ordinary share was paid to eligible shareholders on 19 May 2017. The 2017 first interim ordinary dividend of 14.50 pence per ordinary share was paid to eligible shareholders on 28 September 2017.

The second interim ordinary dividend for the year ended 31 December 2017 of 32.50 pence per ordinary share will be paid on 18 May 2018 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 3 April 2018 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 25 May 2018. The second interim ordinary dividend will be paid on or about 25 May 2018 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 13 March 2018. 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 statement of financial position by segment

#### (a) Position as at 31 December 2017

		2017 £m					Group total
		Asia C2.1	US C2.2	UK and Europe C2.3	Unallo- cated to a segment (other opera- tions) note (v)	Elimin- ation of intra- group debtors and creditors	
<b>By operating segment</b>	Note						
<b>Assets</b>							
Goodwill	C5(a)	305	–	1,177	–	–	1,482
Deferred acquisition costs and other intangible assets	C5(b)	2,540	8,219	210	42	–	11,011
Property, plant and equipment		125	214	447	3	–	789
Reinsurers' share of insurance contract liabilities		1,960	6,424	2,521	3	(1,235)	9,673
Deferred tax assets	C8.1	112	2,300	157	58	–	2,627
Current tax recoverable	C8.2	58	298	244	93	(80)	613
Accrued investment income <sup>note (i)</sup>		595	492	1,558	31	–	2,676
Other debtors <sup>note (i)</sup>		2,675	248	3,118	2,121	(5,199)	2,963
Investment properties		5	5	16,487	–	–	16,497
Investment in joint ventures and associates accounted for using the equity method	D6	912	–	504	–	–	1,416
Loans	C3.3	1,317	9,630	5,986	109	–	17,042
Equity securities and portfolio holdings in unit trusts		29,976	130,630	62,670	115	–	223,391
Debt securities	C3.2	40,982	35,378	92,707	2,307	–	171,374
Derivative assets		113	1,611	2,954	123	–	4,801
Other investments		–	848	4,774	–	–	5,622
Deposits		1,291	43	9,540	362	–	11,236
Assets held for sale		–	–	38	–	–	38
Cash and cash equivalents <sup>note (ii)</sup>		1,934	1,658	5,808	1,290	–	10,690
<b>Total assets</b>		<b>84,900</b>	<b>197,998</b>	<b>210,900</b>	<b>6,657</b>	<b>(6,514)</b>	<b>493,941</b>
<b>Total equity</b>		<b>5,926</b>	<b>5,248</b>	<b>8,245</b>	<b>(3,325)</b>	<b>–</b>	<b>16,094</b>
<b>Liabilities</b>							
Insurance contract liabilities	C4.1	63,468	177,728	88,180	31	(1,235)	328,172
Investment contract liabilities with discretionary participation features	C4.1	337	–	62,340	–	–	62,677
Investment contract liabilities without discretionary participation features	C4.1	328	2,996	17,069	1	–	20,394
Unallocated surplus of with-profits funds	C4.1	3,474	–	13,477	–	–	16,951
Core structural borrowings of shareholder-financed operations	C6.1	–	184	–	6,096	–	6,280
Operational borrowings attributable to shareholder-financed operations <sup>note (iv)</sup>	C6.2	50	508	148	1,085	–	1,791
Borrowings attributable to with-profits operations	C6.2	10	–	3,706	–	–	3,716
Obligations under funding, securities lending and sale and repurchase agreements		–	4,304	1,358	–	–	5,662
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,631	–	5,243	15	–	8,889
Deferred tax liabilities	C8.1	1,152	1,845	1,703	15	–	4,715
Current tax liabilities	C8.2	122	47	377	71	(80)	537
Accruals deferred income and other liabilities <sup>note (iii)</sup>		6,069	5,109	6,609	1,597	(5,199)	14,185
Provisions	C11	254	24	784	61	–	1,123
Derivative liabilities	C3.4	79	5	1,661	1,010	–	2,755
<b>Total liabilities</b>		<b>78,974</b>	<b>192,750</b>	<b>202,655</b>	<b>9,982</b>	<b>(6,514)</b>	<b>477,847</b>
<b>Total equity and liabilities</b>		<b>84,900</b>	<b>197,998</b>	<b>210,900</b>	<b>6,657</b>	<b>(6,514)</b>	<b>493,941</b>

**C1 Analysis of Group statement of financial position by segment continued**

**(b) Position as at 31 December 2016**

By operating segment	Note	2016* £m					Group total
		Asia C2.1	US C2.2	UK and Europe C2.3	Unallo- cated to a segment (other opera- tions) note (v)	Elimin- ation of intra- group debtors and creditors	
<b>Assets</b>							
Goodwill	C5(a)	306	16	1,306	–	–	1,628
Deferred acquisition costs and other intangible assets	C5(b)	2,319	8,327	132	29	–	10,807
Property, plant and equipment		124	247	369	3	–	743
Reinsurers' share of insurance contract liabilities		1,539	7,224	2,590	–	(1,302)	10,051
Deferred tax assets	C8.1	107	3,979	174	55	–	4,315
Current tax recoverable	C8.2	29	101	308	2	–	440
Accrued investment income <sup>note (i)</sup>		549	628	1,939	37	–	3,153
Other debtors <sup>note (i)</sup>		2,662	304	3,233	2,130	(5,310)	3,019
Investment properties		5	6	14,635	–	–	14,646
Investment in joint ventures and associates accounted for using the equity method	D6	825	–	448	–	–	1,273
Loans	C3.3	1,303	9,735	3,572	563	–	15,173
Equity securities and portfolio holdings in unit trusts		23,599	120,747	54,177	29	–	198,552
Debt securities	C3.2	36,546	40,745	90,796	2,371	–	170,458
Derivative assets		47	834	2,927	128	–	3,936
Other investments		–	992	4,473	–	–	5,465
Deposits		1,425	49	10,705	6	–	12,185
Assets held for sale	D1	3,863	–	726	–	–	4,589
Cash and cash equivalents <sup>note (ii)</sup>		2,157	1,135	5,064	1,709	–	10,065
<b>Total assets</b>		<b>77,405</b>	<b>195,069</b>	<b>197,574</b>	<b>7,062</b>	<b>(6,612)</b>	<b>470,498</b>
<b>Total equity</b>		<b>5,376</b>	<b>5,408</b>	<b>7,832</b>	<b>(3,949)</b>	<b>–</b>	<b>14,667</b>
<b>Liabilities</b>							
Insurance contract liabilities	C4.1	54,417	174,328	88,993	–	(1,302)	316,436
Investment contract liabilities with discretionary participation features	C4.1	347	–	52,490	–	–	52,837
Investment contract liabilities without discretionary participation features	C4.1	254	3,298	16,171	–	–	19,723
Unallocated surplus of with-profits funds	C4.1	2,667	–	11,650	–	–	14,317
Core structural borrowings of shareholder-financed operations	C6.1	–	202	–	6,596	–	6,798
Operational borrowings attributable to shareholder-financed operations <sup>note (iv)</sup>	C6.2	19	480	167	1,651	–	2,317
Borrowings attributable to with-profits operations	C6.2	4	–	1,345	–	–	1,349
Obligations under funding, securities lending and sale and repurchase agreements		–	3,534	1,497	–	–	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,093	–	5,594	–	–	8,687
Deferred tax liabilities	C8.1	935	2,832	1,592	11	–	5,370
Current tax liabilities	C8.2	125	–	513	11	–	649
Accruals, deferred income and other liabilities <sup>note (iii)</sup>		5,916	4,920	6,688	1,611	(5,310)	13,825
Provisions	C11	229	3	647	68	–	947
Derivative liabilities	C3.4	265	64	1,860	1,063	–	3,252
Liabilities held for sale	D1	3,758	–	535	–	–	4,293
<b>Total liabilities</b>		<b>72,029</b>	<b>189,661</b>	<b>189,742</b>	<b>11,011</b>	<b>(6,612)</b>	<b>455,831</b>
<b>Total equity and liabilities</b>		<b>77,405</b>	<b>195,069</b>	<b>197,574</b>	<b>7,062</b>	<b>(6,612)</b>	<b>470,498</b>

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

**Notes**

## (i) Accrued investment income and other debtors

	2017 £m	2016 £m
Interest receivable	1,789	1,975
Other	887	1,178
<b>Total accrued investment income</b>	<b>2,676</b>	<b>3,153</b>
Other debtors comprises:		
Amounts due from		
Policyholders	408	403
Intermediaries	4	6
Reinsurers	134	90
Other	2,417	2,520
<b>Total other debtors</b>	<b>2,963</b>	<b>3,019</b>
<b>Total accrued investment income and other debtors</b>	<b>5,639</b>	<b>6,172</b>
Analysed as:		
Expected to be settled within one year	4,957	5,548
Expected to be settled after one year	682	624
<b>Total accrued investment income and other debtors</b>	<b>5,639</b>	<b>6,172</b>

## (ii) Cash and cash equivalents

	2017 £m	2016 £m
Cash	6,623	5,581
Cash equivalents	4,067	4,484
<b>Total cash and cash equivalents</b>	<b>10,690</b>	<b>10,065</b>
Analysed as:		
Held centrally and available for general use by the Group	328	247
Other funds not available for general use by the Group, including funds held for the benefit of policyholders	10,362	9,818
<b>Total cash and cash equivalents</b>	<b>10,690</b>	<b>10,065</b>

The Group's cash and cash equivalents are held in the following currencies: pounds sterling 31 per cent, US dollars 28 per cent, Euro 24 per cent and other currencies 17 per cent (2016: pounds sterling 38 per cent, US dollars 25 per cent, Euro 20 per cent and other currencies 17 per cent).

## (iii) Accruals, deferred income and other liabilities

	2017 £m	2016 £m
Accruals and deferred income	1,233	1,150
Other creditors	7,289	6,788
Creditors arising from direct insurance and reinsurance operations	2,296	2,520
Interest payable	100	90
Funds withheld under reinsurance of the REALIC business	2,664	2,851
Other items	603	426
<b>Total accruals, deferred income and other liabilities</b>	<b>14,185</b>	<b>13,825</b>

## (iv) Operational borrowings attributable to shareholder-financed operations within other operations, in respect of Prudential Capital's short-term fixed income security programme

	2017 £m	2016 £m
Commercial paper	485	1,052
Medium Term Notes	600	599
<b>Total Group debt represented by operational borrowings at Group level</b>	<b>1,085</b>	<b>1,651</b>

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

## C Balance sheet notes continued

### C2 Analysis of segment statement of financial position by business type

#### C2.1 Asia

	31 Dec 2017 £m							31 Dec 2016* £m	
	Note	Insurance			Total	Asset management	Eliminations	Total	
		With-profits business	Unit-linked assets and liabilities	Other business					
<b>Assets</b>									
Goodwill		–	–	244	244	61	–	305	306
Deferred acquisition costs and other intangible assets		45	–	2,490	2,535	5	–	2,540	2,319
Property, plant and equipment		86	–	36	122	3	–	125	124
Reinsurers' share of insurance contract liabilities		76	–	1,884	1,960	–	–	1,960	1,539
Deferred tax assets		–	–	102	102	10	–	112	107
Current tax recoverable		1	2	55	58	–	–	58	29
Accrued investment income		230	53	277	560	35	–	595	549
Other debtors		1,823	169	648	2,640	67	(32)	2,675	2,662
Investment properties		–	–	5	5	–	–	5	5
Investment in joint ventures and associates accounted for using the equity method		–	–	768	768	144	–	912	825
Loans	C3.3	725	–	592	1,317	–	–	1,317	1,303
Equity securities and portfolio holdings in unit trusts		14,995	13,199	1,759	29,953	23	–	29,976	23,599
Debt securities	C3.2	24,432	3,507	13,043	40,982	–	–	40,982	36,546
Derivative assets		82	5	26	113	–	–	113	47
Deposits		246	511	499	1,256	35	–	1,291	1,425
Assets held for sale	D1	–	–	–	–	–	–	–	3,863
Cash and cash equivalents		632	287	822	1,741	193	–	1,934	2,157
<b>Total assets</b>		<b>43,373</b>	<b>17,733</b>	<b>23,250</b>	<b>84,356</b>	<b>576</b>	<b>(32)</b>	<b>84,900</b>	<b>77,405</b>
<b>Total equity</b>		<b>–</b>	<b>–</b>	<b>5,525</b>	<b>5,525</b>	<b>401</b>	<b>–</b>	<b>5,926</b>	<b>5,376</b>
<b>Liabilities</b>									
Insurance contract liabilities		33,861	15,935	13,672	63,468	–	–	63,468	54,417
Investment contract liabilities with discretionary participation features	C4.1	337	–	–	337	–	–	337	347
Investment contract liabilities without discretionary participation features	C4.1	–	328	–	328	–	–	328	254
Unallocated surplus of with-profits funds		3,474	–	–	3,474	–	–	3,474	2,667
Operational borrowings attributable to shareholder-financed operations		–	7	43	50	–	–	50	19
Borrowings attributable to with-profits operations		10	–	–	10	–	–	10	4
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,152	1,219	260	3,631	–	–	3,631	3,093
Deferred tax liabilities		774	38	340	1,152	–	–	1,152	935
Current tax liabilities		24	–	81	105	17	–	122	125
Accruals, deferred income and other liabilities		2,620	206	3,207	6,033	68	(32)	6,069	5,916
Provisions		62	–	102	164	90	–	254	229
Derivative liabilities		59	–	20	79	–	–	79	265
Liabilities held for sale	D1	–	–	–	–	–	–	–	3,758
<b>Total liabilities</b>		<b>43,373</b>	<b>17,733</b>	<b>17,725</b>	<b>78,831</b>	<b>175</b>	<b>(32)</b>	<b>78,974</b>	<b>72,029</b>
<b>Total equity and liabilities</b>		<b>43,373</b>	<b>17,733</b>	<b>23,250</b>	<b>84,356</b>	<b>576</b>	<b>(32)</b>	<b>84,900</b>	<b>77,405</b>

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

#### 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

	31 Dec 2017 £m						31 Dec 2016* £m
	Note	Insurance		Total	Asset management	Eliminations	Total
		Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business				
<b>Assets</b>							
Goodwill		-	-	-	-	-	16
Deferred acquisition costs and other intangible assets		-	8,216	8,216	3	-	8,219
Property, plant and equipment		-	209	209	5	-	214
Reinsurers' share of insurance contract liabilities		-	6,424	6,424	-	-	6,424
Deferred tax assets		-	2,218	2,218	82	-	2,300
Current tax recoverable		-	284	284	14	-	298
Accrued investment income		-	444	444	48	-	492
Other debtors		-	247	247	77	(76)	248
Investment properties		-	5	5	-	-	5
Loans	C3.3	-	9,630	9,630	-	-	9,630
Equity securities and portfolio holdings in unit trusts		130,528	102	130,630	-	-	130,630
Debt securities	C3.2	-	35,378	35,378	-	-	35,378
Derivative assets		-	1,611	1,611	-	-	1,611
Other investments		-	844	844	4	-	848
Deposits		-	-	-	43	-	43
Cash and cash equivalents		-	1,224	1,224	434	-	1,658
<b>Total assets</b>		130,528	66,836	197,364	710	(76)	197,998
<b>Total equity</b>		-	5,013	5,013	235	-	5,248
<b>Liabilities</b>							
Insurance contract liabilities		130,528	47,200	177,728	-	-	177,728
Investment contract liabilities without discretionary participation features	C4.1	-	2,996	2,996	-	-	2,996
Core structural borrowings of shareholder-financed operations		-	184	184	-	-	184
Operational borrowings attributable to shareholder-financed operations		-	508	508	-	-	508
Obligations under funding, securities lending and sale and repurchase agreements		-	4,304	4,304	-	-	4,304
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		-	-	-	-	-	-
Deferred tax liabilities		-	1,844	1,844	1	-	1,845
Current tax liabilities		-	46	46	1	-	47
Accruals, deferred income and other liabilities		-	4,728	4,728	457	(76)	5,109
Provisions		-	8	8	16	-	24
Derivative liabilities		-	5	5	-	-	5
<b>Total liabilities</b>		130,528	61,823	192,351	475	(76)	192,750
<b>Total equity and liabilities</b>		130,528	66,836	197,364	710	(76)	197,998

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

## C Balance sheet notes continued

### C2 Analysis of segment statement of financial position by business type continued

#### C2.3 UK and Europe

	31 Dec 2017 £m							31 Dec 2016* £m	
	Insurance			Total	Asset management	Eliminations	Total	Total	
	Other funds and subsidiaries		With-profits sub-funds note (i)						
	Note	Unit-linked assets and liabilities	Annuity and other long-term business						
<b>Assets</b>									
Goodwill		24	–	–	24	1,153	–	1,177	1,306
Deferred acquisition costs and other intangible assets		100	–	103	203	7	–	210	132
Property, plant and equipment		406	–	37	443	4	–	447	369
Reinsurers' share of insurance contract liabilities		1,269	133	1,119	2,521	–	–	2,521	2,590
Deferred tax assets		70	–	64	134	23	–	157	174
Current tax recoverable		63	–	181	244	–	–	244	308
Accrued investment income		892	107	553	1,552	6	–	1,558	1,939
Other debtors		1,553	76	624	2,253	941	(76)	3,118	3,233
Investment properties		14,153	682	1,652	16,487	–	–	16,487	14,635
Investment in joint ventures and associates accounted for using the equity method		464	–	–	464	40	–	504	448
Loans	C3.3	4,268	–	1,718	5,986	–	–	5,986	3,572
Equity securities and portfolio holdings in unit trusts		47,173	15,369	9	62,551	119	–	62,670	54,177
Debt securities	C3.2	50,661	6,711	35,335	92,707	–	–	92,707	90,796
Derivative assets		2,420	8	526	2,954	–	–	2,954	2,927
Other investments		4,744	11	1	4,756	18	–	4,774	4,473
Deposits		7,167	1,139	1,234	9,540	–	–	9,540	10,705
Assets held for sale <sup>note (ii)</sup>		38	–	–	38	–	–	38	726
Cash and cash equivalents		4,096	693	576	5,365	443	–	5,808	5,064
<b>Total assets</b>		<b>139,561</b>	<b>24,929</b>	<b>43,732</b>	<b>208,222</b>	<b>2,754</b>	<b>(76)</b>	<b>210,900</b>	<b>197,574</b>
<b>Total equity</b>		<b>–</b>	<b>–</b>	<b>6,344</b>	<b>6,344</b>	<b>1,901</b>	<b>–</b>	<b>8,245</b>	<b>7,832</b>
<b>Liabilities</b>									
Insurance contract liabilities	C4.1	48,894	6,097	33,189	88,180	–	–	88,180	88,993
Investment contract liabilities with discretionary participation features	C4.1	62,323	–	17	62,340	–	–	62,340	52,490
Investment contract liabilities without discretionary participation features	C4.1	5	17,048	16	17,069	–	–	17,069	16,171
Unallocated surplus of with-profits funds	C4.1	13,477	–	–	13,477	–	–	13,477	11,650
Operational borrowings attributable to shareholder-financed operations		–	4	123	127	21	–	148	167
Borrowings attributable to with-profits operations		3,706	–	–	3,706	–	–	3,706	1,345
Obligations under funding, securities lending and sale and repurchase agreements		748	–	610	1,358	–	–	1,358	1,497
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,409	1,667	167	5,243	–	–	5,243	5,594
Deferred tax liabilities		1,410	–	274	1,684	19	–	1,703	1,592
Current tax liabilities		119	76	138	333	44	–	377	513
Accruals deferred income and other liabilities		4,791	36	1,293	6,120	565	(76)	6,609	6,688
Provisions		55	–	525	580	204	–	784	647
Derivative liabilities		624	1	1,036	1,661	–	–	1,661	1,860
Liabilities held for sale <sup>note (iii)</sup>		–	–	–	–	–	–	–	535
<b>Total liabilities</b>		<b>139,561</b>	<b>24,929</b>	<b>37,388</b>	<b>201,878</b>	<b>853</b>	<b>(76)</b>	<b>202,655</b>	<b>189,742</b>
<b>Total equity and liabilities</b>		<b>139,561</b>	<b>24,929</b>	<b>43,732</b>	<b>208,222</b>	<b>2,754</b>	<b>(76)</b>	<b>210,900</b>	<b>197,574</b>

\* The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

**Notes**

- (i) Includes the Scottish Amicable Insurance Fund which, at 31 December 2017, have total assets and liabilities of £5,768 million (2016: £6,101 million). The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The PAC with-profits fund includes £10.6 billion (2016: £11.2 billion) of non-profits annuities liabilities.
- (ii) The assets and liabilities held for sale for the UK and Europe insurance operations comprise the investment properties and consolidated venture investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the year end.

**C3 Assets and liabilities****C3.1 Group assets and liabilities – measurement****(a) Determination of fair value**

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

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

Other than the loans which have been designated at fair value through profit or loss, the loans and receivables have been shown net of provisions for impairment. The fair value of loans have been estimated from discounted cash flows expected to be received. The discount rate is updated for the market rate of interest where applicable.

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

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

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

**(b) Fair value measurement hierarchy of Group assets and liabilities*****Assets and liabilities carried at fair value on the statement of financial position***

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

**C3 Assets and liabilities** continued

**C3.1 Group assets and liabilities – measurement** continued  
**Financial instruments at fair value**

	31 Dec 2017 £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	
<b>Analysis of financial investments, net of derivative liabilities by business type</b>				
<b>With-profits</b>				
Loans	–	–	2,023	2,023
Equity securities and portfolio holdings in unit trusts	57,347	4,470	351	62,168
Debt securities	29,143	45,602	348	75,093
Other investments (including derivative assets)	68	3,638	3,540	7,246
Derivative liabilities	(68)	(615)	–	(683)
Total financial investments, net of derivative liabilities	86,490	53,095	6,262	145,847
Percentage of total	60%	36%	4%	100%
<b>Unit-linked and variable annuity separate account</b>				
Equity securities and portfolio holdings in unit trusts	158,631	457	10	159,098
Debt securities	4,993	5,226	–	10,219
Other investments (including derivative assets)	12	4	8	24
Derivative liabilities	–	(1)	–	(1)
Total financial investments, net of derivative liabilities	163,636	5,686	18	169,340
Percentage of total	97%	3%	0%	100%
<b>Non-linked shareholder-backed</b>				
Loans	–	–	2,814	2,814
Equity securities and portfolio holdings in unit trusts	2,105	10	10	2,125
Debt securities	21,443	64,313	306	86,062
Other investments (including derivative assets)	7	2,270	876	3,153
Derivative liabilities	–	(1,559)	(512)	(2,071)
Total financial investments, net of derivative liabilities	23,555	65,034	3,494	92,083
Percentage of total	25%	71%	4%	100%
<b>Group total analysis, including other financial liabilities held at fair value</b>				
<b>Group total</b>				
Loans	–	–	4,837	4,837
Equity securities and portfolio holdings in unit trusts	218,083	4,937	371	223,391
Debt securities	55,579	115,141	654	171,374
Other investments (including derivative assets)	87	5,912	4,424	10,423
Derivative liabilities	(68)	(2,175)	(512)	(2,755)
Total financial investments, net of derivative liabilities	273,681	123,815	9,774	407,270
Investment contract liabilities without discretionary participation features held at fair value	–	(17,397)	–	(17,397)
Borrowings attributable to with-profits operations	–	–	(1,887)	(1,887)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(4,836)	(3,640)	(413)	(8,889)
Other financial liabilities held at fair value	–	–	(3,031)	(3,031)
Total financial instruments at fair value	268,845	102,778	4,443	376,066
Percentage of total	72%	27%	1%	100%

	31 Dec 2016 £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	
<b>Analysis of financial investments, net of derivative liabilities by business type</b>				
<b>With-profits</b>				
Loans	–	–	27	27
Equity securities and portfolio holdings in unit trusts	45,181	3,669	690	49,540
Debt securities	26,227	43,880	690	70,797
Other investments (including derivative assets)	58	3,357	3,443	6,858
Derivative liabilities	(51)	(1,025)	–	(1,076)
Total financial investments, net of derivative liabilities	71,415	49,881	4,850	126,146
Percentage of total	56%	40%	4%	100%
<b>Unit-linked and variable annuity separate account</b>				
Equity securities and portfolio holdings in unit trusts	146,637	374	22	147,033
Debt securities	5,136	4,462	–	9,598
Other investments (including derivative assets)	6	8	5	19
Derivative liabilities	(4)	(24)	–	(28)
Total financial investments, net of derivative liabilities	151,775	4,820	27	156,622
Percentage of total	97%	3%	0%	100%
<b>Non-linked shareholder-backed</b>				
Loans	–	276	2,672	2,948
Equity securities and portfolio holdings in unit trusts	1,966	3	10	1,979
Debt securities	21,896	67,915	252	90,063
Other investments (including derivative assets)	–	1,492	1,032	2,524
Derivative liabilities	(9)	(1,623)	(516)	(2,148)
Total financial investments, net of derivative liabilities	23,853	68,063	3,450	95,366
Percentage of total	25%	71%	4%	100%
<b>Group total analysis, including other financial liabilities held at fair value</b>				
<b>Group total</b>				
Loans	–	276	2,699	2,975
Equity securities and portfolio holdings in unit trusts	193,784	4,046	722	198,552
Debt securities	53,259	116,257	942	170,458
Other investments (including derivative assets)	64	4,857	4,480	9,401
Derivative liabilities	(64)	(2,672)	(516)	(3,252)
Total financial investments, net of derivative liabilities	247,043	122,764	8,327	378,134
Investment contract liabilities without discretionary participation features held at fair value	–	(16,425)	–	(16,425)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(4,217)	(3,587)	(883)	(8,687)
Other financial liabilities held at fair value	–	(385)	(2,851)	(3,236)
Total financial instruments at fair value	242,826	102,367	4,593	349,786
Percentage of total	70%	29%	1%	100%

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £35,293 million (2016: £40,645 million) of debt securities classified as available-for-sale.

The Korea life business was classified as held for sale in 2016, with the sale completed in May 2017. The assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a net financial instruments balance of £3,200 million, primarily for equity securities and debt securities. Of this amount, £2,763 million was classified as level 1 and £437 million as level 2.

## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.1 Group assets and liabilities – measurement continued

##### Investment properties at fair value

	31 December £m			
	Level 1	Level 2	Level 3	Total
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	
2017	–	–	16,497	16,497
2016	–	–	14,646	14,646

##### Assets and liabilities at amortised cost for which fair value is disclosed

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

	31 Dec 2017 £m				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs		
<b>Assets</b>					
Loans <sup>note (i)</sup>	–	2,756	10,183	12,939	12,205
<b>Liabilities</b>					
Investment contract liabilities without discretionary participation features	–	–	(3,032)	(3,032)	(2,997)
Core structural borrowings of shareholder-financed operations <sup>note (ii)</sup>	–	(7,023)	–	(7,023)	(6,280)
Operational borrowings attributable to shareholder-financed operations	–	(1,788)	(3)	(1,791)	(1,791)
Borrowings attributable to the with-profits funds	–	(1,761)	(71)	(1,832)	(1,829)
Obligations under funding, securities lending and sale and repurchase agreements	–	(1,410)	(4,318)	(5,728)	(5,662)

	31 Dec 2016 £m				
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs		
<b>Assets</b>					
Loans <sup>note (i)</sup>	–	4,062	8,846	12,908	12,198
<b>Liabilities</b>					
Investment contract liabilities without discretionary participation features	–	–	(3,333)	(3,333)	(3,298)
Core structural borrowings of shareholder-financed operations <sup>note (ii)</sup>	–	(7,220)	–	(7,220)	(6,798)
Operational borrowings attributable to shareholder-financed operations	–	(2,313)	(4)	(2,317)	(2,317)
Borrowings attributable to the with-profits funds	–	(1,220)	(133)	(1,353)	(1,349)
Obligations under funding, securities lending and sale and repurchase agreements	–	(1,926)	(3,140)	(5,066)	(5,031)

##### Notes

(i) The carrying value of loans and receivables are reported net of allowance for loan losses of £28 million (2016: £15 million).

(ii) As at 31 December 2017, £312 million (2016: £306 million) of convertible bonds were included in debt securities and £1,311 million (2016: £1,455 million) were included in borrowings.

The fair value of the assets and liabilities in the table above, with the exception of the subordinated and senior debt issued by the parent company, has been estimated from the discounted cash flows expected to be received or paid. Where appropriate, the observable market interest rate has been used and the assets and liabilities are classified within level 2. Otherwise, they are included as level 3 assets or liabilities. During 2017, the assumptions applied within the discounted cash flow model used to value the equity release mortgage loans held by the UK insurance operations were refined to reflect developing market practice, including consideration of the Prudential Regulation Authority's industry wide review in this area and resulting guidance. This refinement incorporates inputs relevant to determining the discount rate that are not market observable. As a result, these loans (£1,429 million at 31 December 2017) have been transferred from level 2 to level 3 in the table above.

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

### (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 service 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 that 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 £115,141 million at 31 December 2017 (2016: £116,257 million), £13,910 million are valued internally (2016: £12,708 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.

## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.1 Group assets and liabilities – measurement continued

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

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

The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2017 to that presented at 31 December 2017.

##### Financial instruments at fair value

	£m									
	At 1 Jan	Total gains/ (losses) in income statement	Total (losses)/ gains recorded as other compre- hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 Dec
<b>2017</b>										
Loans	2,699	17	(235)	2,129	–	(311)	236	302	–	4,837
Equity securities and portfolio holdings in unit trusts	722	11	(5)	186	(468)	(6)	–	1	(70)	371
Debt securities	942	51	(11)	216	(522)	–	–	–	(22)	654
Other investments (including derivative assets)	4,480	73	(133)	727	(725)	–	–	2	–	4,424
Derivative liabilities	(516)	4	–	–	–	–	–	–	–	(512)
Total financial investments, net of derivative liabilities	8,327	156	(384)	3,258	(1,715)	(317)	236	305	(92)	9,774
Borrowings attributable to with-profits operations	–	(13)	–	–	–	115	(1,989)	–	–	(1,887)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(883)	(559)	–	(13)	–	1,276	(234)	–	–	(413)
Other financial liabilities	(2,851)	14	250	–	–	252	(311)	(385)	–	(3,031)
Total financial instruments at fair value	4,593	(402)	(134)	3,245	(1,715)	1,326	(2,298)	(80)	(92)	4,443
<b>2016</b>										
Loans	2,183	2	427	–	–	(123)	210	–	–	2,699
Equity securities and portfolio holdings in unit trusts	607	59	(20)	153	(133)	(9)	–	65	–	722
Debt securities	778	85	11	185	(75)	(37)	–	–	(5)	942
Other investments (including derivative assets)	4,276	359	443	720	(1,002)	–	–	73	(389)	4,480
Derivative liabilities	(353)	(163)	–	–	–	–	–	–	–	(516)
Total financial investments, net of derivative liabilities	7,491	342	861	1,058	(1,210)	(169)	210	138	(394)	8,327
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,036)	(18)	(2)	–	24	271	(122)	–	–	(883)
Other financial liabilities	(2,347)	(4)	(457)	–	–	259	(302)	–	–	(2,851)
Total financial instruments at fair value	4,108	320	402	1,058	(1,186)	361	(214)	138	(394)	4,593



Of the total net losses and gains in the income statement of £(402) million (2016: £320 million), £(139) million (2016: £242 million) relates to net unrealised gains and losses of financial instruments still held at the end of the year, which can be analysed as follows:

	2017 £m	2016 £m
Loans	20	–
Equity securities	(12)	8
Debt securities	(5)	71
Other investments	(22)	182
Derivative liabilities	4	–
Borrowings attributable to with-profit operations	(13)	–
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(123)	(18)
Other financial liabilities	12	(1)
<b>Total</b>	<b>(139)</b>	<b>242</b>

### Other assets at fair value – investment properties

£m								
	At 1 Jan	Total gains in income statement	Total (losses)/ gains in other comprehensive income	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec
<b>2017</b>	14,646	415	(21)	2,048	(591)	–	–	16,497
2016	13,422	273	97	1,527	(632)	–	(41)	14,646

Of the total net losses and gains in the income statement of £415 million (2016: £273 million), £394 million (2016: £286 million) relates to net unrealised gains of investment properties still held at the end of the year.

### 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 that 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 a significant volume 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 2017, the Group held £4,443 million (2016: £4,593 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2016: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

The net financial instruments at fair value within level 3 at 31 December 2017 include £1,983 million of loans and a corresponding £1,887 million of borrowings held by a subsidiary of the Group's UK with-profits fund, attaching to a portfolio of buy-to-let mortgages and other loans financed largely by external third-party (non-recourse) borrowings (see note C3.3(c) for further details). The Group's exposure is limited to the investment held by the UK with-profits fund, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non-observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

Also included within these amounts are loans of £2,512 million at 31 December 2017 (2016: £2,672 million), measured as the loan outstanding balance, plus accrued investment income, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,664 million at 31 December 2017 (2016: £2,851 million) is also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

### C3 Assets and liabilities continued

#### C3.1 Group assets and liabilities – measurement continued

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(152) million (2016: £(179) million), the level 3 fair valued financial assets net of financial liabilities are £4,595 million (2016: £4,772 million). Of this amount, a net asset of £117 million (2016: net asset of £72 million) is internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2016: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability are:

- (a) Debt securities of £500 million (2016: £422 million), which are either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
- (b) Private equity and venture investments in both debt and equity securities of £217 million (2016: £956 million) which are valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity and Venture Capital Association Valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.
- (c) Equity release mortgage loans of £366 million (2016: £276 million classified as level 2) which are valued internally using the discounted cash flow models. The inputs that are significant to the valuation of these investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values. See below for the explanation of the transfer of these investments from level 2 into level 3 during the year.
- (d) Liabilities of £(403) million (2016: £(883) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.
- (e) Derivative liabilities of £(512) million (2016: £(516) million) which are valued internally using the discounted cash flow method in line with standard market practices but are subject to independent assessment against external counterparties' valuations.
- (f) Other sundry individual financial investments of £81 million (2016: £93 million).

Of the internally valued net asset referred to above of £117 million (2016: net asset of £72 million):

- (a) A net asset of £67 million (2016: £315 million) is 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 £(184) million (2016: £(243) million) is held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally decreased by 10 per cent, the change in valuation would be £18 million (2016: £24 million), which would reduce shareholders' equity by this amount before tax. All this amount passes through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit.

#### Other assets at fair value – investment properties

The investment properties of the Group are principally held by the UK and Europe insurance operations that 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 that are virtually identical to the 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 the year, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £1,389 million and transfers from level 2 to level 1 of £411 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities.

In addition, in 2017, the transfers into level 3 were a net liability of £(80) million and the transfers out of level 3 were £92 million. The transfers into level 3 include a transfer from level 2 of a net liability of £(83) million relating to the equity release mortgage loans of £302 million and a corresponding liability of £(385) million held by the UK insurance operations that are carried at fair value through profit or loss. During 2017, the assumptions used within the discounted cash flow model used to value these loans were refined to reflect developing market practice, including consideration of the Prudential Regulation Authority's industry-wide review in this area and resulting guidance. This refinement incorporates inputs relevant to determining the discount rate that are not market observable. As a result, the loans were reclassified as level 3. There was no material difference in the fair value of these loans recognised in 2017, arising from this change in the valuation model.

## (f) Valuation processes applied by the Group

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

## C3.2 Debt securities

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

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

### (a) Credit rating

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

	2017 £m						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	
Asia							
With-profits	2,504	10,641	3,846	3,234	1,810	2,397	24,432
Unit-linked	528	103	510	1,429	372	565	3,507
Non-linked shareholder-backed	990	2,925	3,226	2,970	1,879	1,053	13,043
US							
Non-linked shareholder-backed	368	6,352	9,578	12,311	1,000	5,769	35,378
UK and Europe							
With-profits	6,492	9,378	11,666	12,856	2,877	7,392	50,661
Unit-linked	670	2,732	1,308	1,793	91	117	6,711
Non-linked shareholder-backed	5,118	11,005	9,625	3,267	258	6,062	35,335
Other operations	742	1,264	182	67	36	16	2,307
<b>Total debt securities</b>	<b>17,412</b>	<b>44,400</b>	<b>39,941</b>	<b>37,927</b>	<b>8,323</b>	<b>23,371</b>	<b>171,374</b>
	2016 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	3,183	8,522	3,560	2,996	1,887	1,713	21,861
Unit-linked	448	112	525	1,321	494	421	3,321
Non-linked shareholder-backed	1,082	2,435	2,864	2,388	1,680	915	11,364
US							
Non-linked shareholder-backed	445	7,932	10,609	13,950	1,009	6,800	40,745
UK and Europe							
With-profits	5,740	9,746	10,679	12,798	3,289	6,684	48,936
Unit-linked	461	2,660	1,158	1,699	212	87	6,277
Non-linked shareholder-backed	4,238	10,371	10,558	4,515	397	5,504	35,583
Other operations	830	1,190	242	97	10	2	2,371
<b>Total debt securities</b>	<b>16,427</b>	<b>42,968</b>	<b>40,195</b>	<b>39,764</b>	<b>8,978</b>	<b>22,126</b>	<b>170,458</b>

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## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.2 Debt securities continued

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

	2017 £m	2016 £m
<b>Asia – non-linked shareholder-backed</b>		
Internally rated		
Government bonds	25	63
Corporate bonds – rated as investment grade by local external ratings agencies	959	757
Other	69	95
<b>Total Asia non-linked shareholder-backed</b>	<b>1,053</b>	<b>915</b>

	£m			
	Mortgage-backed securities	Other securities	2017 total	2016 total
<b>US</b>				
Implicit ratings of other US debt securities based on NAIC* valuations (see below)				
NAIC 1	1,843	2,075	3,918	4,759
NAIC 2	22	1,772	1,794	1,909
NAIC 3-6	3	54	57	132
<b>Total US</b>	<b>1,868</b>	<b>3,901</b>	<b>5,769</b>	<b>6,800</b>

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

	2017 £m	2016 £m
<b>UK and Europe</b>		
Internal ratings or unrated		
AAA to A-	7,994	6,939
BBB to B-	3,141	3,257
Below B- or unrated	2,436	2,079
<b>Total UK and Europe</b>	<b>13,571</b>	<b>12,275</b>

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a debt securities balance of £652 million.

#### (b) Additional analysis of US insurance operations debt securities

	2017 £m	2016 £m
Corporate and government security and commercial loans:		
Government	4,835	5,856
Publicly traded and SEC Rule 144A securities*	22,849	25,992
Non-SEC Rule 144A securities	4,468	4,576
Asset backed securities (see note (e))	3,226	4,321
<b>Total US debt securities†</b>	<b>35,378</b>	<b>40,745</b>

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

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

	2017 £m	2016 £m
Available-for-sale	35,293	40,645
Fair value through profit or loss:		
Securities held to back liabilities for funds withheld under reinsurance arrangement	85	100
	<b>35,378</b>	<b>40,745</b>

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

**(c) Movements in unrealised gains and losses on Jackson available-for-sale securities**

The movement in the statement of financial position value for debt securities classified as available-for-sale was from a net unrealised gain of £676 million to a net unrealised gain of £1,205 million as analysed in the table below.

	2017	Foreign exchange translation	Changes in unrealised appreciation <sup>†</sup>	2016
	Reflected as part of movement in other comprehensive income			
	£m	£m	£m	£m
Assets fair valued at below book value				
Book value*	6,325			14,617
Unrealised gain (loss)	(106)	33	536	(675)
Fair value (as included in statement of financial position)	6,219			13,942
Assets fair valued at or above book value				
Book value*	27,763			25,352
Unrealised gain (loss)	1,311	(121)	81	1,351
Fair value (as included in statement of financial position)	29,074			26,703
Total				
Book value*	34,088			39,969
Net unrealised gain (loss)	1,205	(88)	617	676
Fair value (as included in the footnote above in the overview table and the statement of financial position)	35,293			40,645

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

† Translated at the average rate of US\$1.2889: £1.00.

**(d) US debt securities classified as available-for-sale in an unrealised loss position****(i) Fair value of securities as a percentage of book value**

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	2017 £m		2016 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	6,170	(95)	12,326	(405)
Between 80% and 90%	36	(6)	1,598	(259)
Below 80%:				
Residential mortgage-backed securities – sub-prime	–	–	–	–
Commercial mortgage-backed securities	–	–	8	(3)
Other asset-backed securities	10	(4)	9	(8)
Government bonds	–	–	–	–
Corporates	3	(1)	1	–
	13	(5)	18	(11)
Total	6,219	(106)	13,942	(675)

**(ii) Unrealised losses by maturity of security**

	2017 £m	2016 £m
1 year to 5 years	(7)	(7)
5 years to 10 years	(41)	(118)
More than 10 years	(39)	(510)
Mortgage-backed and other debt securities	(19)	(40)
Total	(106)	(675)

## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.2 Debt securities continued

##### (iii) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	2017 £m			2016 £m		
	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(4)	(31)	(35)	(3)	(599)	(602)
6 months to 1 year	(1)	(4)	(5)	–	(2)	(2)
1 year to 2 years	–	(49)	(49)	(4)	(27)	(31)
2 years to 3 years	(1)	(6)	(7)	(2)	(1)	(3)
More than 3 years	–	(10)	(10)	(2)	(35)	(37)
<b>Total</b>	<b>(6)</b>	<b>(100)</b>	<b>(106)</b>	<b>(11)</b>	<b>(664)</b>	<b>(675)</b>

Further, the following table shows the age analysis as at 31 December, of the securities whose fair values were below 80 per cent of the book value:

Age analysis	2017 £m		2016 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	2	–	1	–
3 months to 6 months	1	(1)	–	–
More than 6 months	10	(4)	17	(11)
	<b>13</b>	<b>(5)</b>	<b>18</b>	<b>(11)</b>

#### (e) 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 31 December are as follows:

	2017 £m	2016 £m
<b>Shareholder-backed operations</b>		
Asia operations <sup>note (i)</sup>	118	130
US operations <sup>note (ii)</sup>	3,226	4,321
UK and Europe operations (2017: 34% AAA, 16% AA) <sup>note (iii)</sup>	1,070	1,464
Other operations <sup>note (iv)</sup>	589	771
	<b>5,003</b>	<b>6,686</b>
<b>With-profits operations</b>		
Asia operations <sup>note (i)</sup>	233	357
UK and Europe operations (2017: 58% AAA, 10% AA) <sup>note (iii)</sup>	5,658	5,177
	<b>5,891</b>	<b>5,534</b>
<b>Total</b>	<b>10,894</b>	<b>12,220</b>

**Notes**

- (i) Asia operations  
The Asia operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £233 million, 98 per cent (2016: 99 per cent) are investment grade.
- (ii) US operations  
US operations' exposure to asset-backed securities at 31 December comprises:

	2017 £m	2016 £m
RMBS		
Sub-prime (2017: 2% AAA, 4% AA, 3% A)	112	180
Alt-A (2017: 3% AAA, 3% A)	126	177
Prime including agency (2017: 70% AA, 4% A)	440	675
CMBS (2017: 82% AAA, 15% AA, 1% A)	1,579	2,234
CDO funds (2017: 49% AA, 31% A), including £nil exposure to sub-prime	28	50
Other ABS (2017: 21% AAA, 14% AA, 50% A), including £96 million exposure to sub-prime	941	1,005
<b>Total</b>	<b>3,226</b>	<b>4,321</b>

- (iii) UK and Europe operations  
The majority of holdings of the shareholder-backed business are UK securities and relate to PAC's annuity business. Of the holdings of the with-profits operations, £1,913 million (2016: £1,623 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.
- (iv) Other operations  
Other operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £589 million, 96 per cent (2016: 95 per cent) are graded AAA.

**(f) Group sovereign debt and bank debt exposure**

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December are analysed as follows:

**Exposure to sovereign debts**

	2017 £m		2016 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	58	63	56	61
Spain	34	18	33	18
France	23	38	22	–
Germany*	693	301	573	329
Other Eurozone	82	31	83	33
<b>Total Eurozone</b>	<b>890</b>	<b>451</b>	<b>767</b>	<b>441</b>
United Kingdom	5,918	3,287	5,510	2,868
United States†	5,078	10,156	6,861	9,008
Other, including Asia	4,638	2,143	3,979	2,079
<b>Total</b>	<b>16,524</b>	<b>16,037</b>	<b>17,117</b>	<b>14,396</b>

\* Including bonds guaranteed by the federal government.

† The exposure to the United States sovereign debt comprises holdings of the US, UK and Europe and Asia insurance operations.

## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.2 Debt securities continued Exposure to bank debt securities

	2017 £m						2017 total £m	2016 total £m
	Senior debt			Subordinated debt				
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total sub-ordinated debt		
<b>Shareholder-backed business</b>								
Italy	–	–	–	–	–	–	–	32
Spain	42	26	68	–	–	–	68	170
France	28	41	69	10	7	17	86	166
Germany	30	–	30	–	87	87	117	124
Netherlands	–	65	65	–	6	6	71	50
Other Eurozone	15	–	15	–	–	–	15	19
<b>Total Eurozone</b>	<b>115</b>	<b>132</b>	<b>247</b>	<b>10</b>	<b>100</b>	<b>110</b>	<b>357</b>	<b>561</b>
United Kingdom	695	374	1,069	5	308	313	1,382	1,174
United States	–	2,457	2,457	1	161	162	2,619	2,684
Other, including Asia	17	652	669	93	401	494	1,163	1,018
<b>Total</b>	<b>827</b>	<b>3,615</b>	<b>4,442</b>	<b>109</b>	<b>970</b>	<b>1,079</b>	<b>5,521</b>	<b>5,437</b>
<b>With-profits funds</b>								
Italy	–	31	31	–	–	–	31	62
Spain	–	16	16	–	–	–	16	213
France	9	213	222	–	64	64	286	213
Germany	120	24	144	–	36	36	180	114
Netherlands	–	188	188	5	6	11	199	202
Other Eurozone	–	27	27	–	–	–	27	31
<b>Total Eurozone</b>	<b>129</b>	<b>499</b>	<b>628</b>	<b>5</b>	<b>106</b>	<b>111</b>	<b>739</b>	<b>835</b>
United Kingdom	859	592	1,451	3	484	487	1,938	1,396
United States	–	2,205	2,205	17	296	313	2,518	2,229
Other, including Asia	532	1,256	1,788	290	453	743	2,531	1,992
<b>Total</b>	<b>1,520</b>	<b>4,552</b>	<b>6,072</b>	<b>315</b>	<b>1,339</b>	<b>1,654</b>	<b>7,726</b>	<b>6,452</b>

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

#### (g) Impairment of US available-for-sale debt securities and other financial assets

In accordance with the Group's accounting policy set out in note A3.1, impairment reviews were performed for available-for-sale securities and loans and receivables.

During the year ended 31 December 2017, net impairment credit of £1 million (2016: charge of £(44) million) were recognised for available-for-sale securities and loans and receivables analysed as follows:

	2017 £m	2016 £m
Available-for-sale debt securities held by Jackson	8	(20)
Loans and receivables*	(7)	(24)
<b>Net credit (charge) for impairment net of reversals</b>	<b>1</b>	<b>(44)</b>

\* The impairment charges/reversals relate to loans held by the UK with-profits fund and mortgage loans held by Jackson.



Jackson's portfolio of debt securities is managed proactively with credit analysts closely monitoring and reporting on the credit quality of its holdings. Jackson continues to review its investments on a case-by-case basis to determine whether any decline in fair value represents an impairment. In addition, investments in structured securities are subject to a rigorous review of their future estimated cash flows, including expected and stress case scenarios, to identify potential shortfalls in contractual payments (both interest and principal). Impairment charges are recorded on structured securities when the Company forecasts a contractual payment shortfall. Situations where such a shortfall would not lead to a recognition of a loss are rare. However, some structured securities do not have a single determined set of future cash flows and instead, there can be a reasonable range of estimates that could potentially emerge. With this variability, there could be instances where the projected cash flow shortfall under management's base case set of assumptions is so minor that relatively small and justifiable changes to the base case assumptions would eliminate the need for an impairment loss to be recognised. The impairment loss reflects the difference between the fair value and book value.

In 2017, the Group realised gross losses on sales of available-for-sale securities of £155 million (2016: £152 million) with 97 per cent (2016: 59 per cent) of these losses related to the disposal of fixed maturity securities of the top 10 individual issuers, which were disposed of as part of risk reduction programmes intended to limit future credit loss exposure. Of the £155 million (2016: £152 million), £3 million (2016: £94 million) relates to losses on sales of impaired and deteriorating securities.

The effect of changes in the key assumptions that underpin the assessment of whether impairment has taken place depends on the factors described in note A3.1. A key indicator of whether such impairment may arise in future, and the potential amounts at risk, is the profile of gross unrealised losses for fixed maturity securities accounted for on an available-for-sale basis by reference to the time periods by which the securities have been held continuously in an unrealised loss position and by reference to the maturity date of the securities concerned.

For 2017, the amount of gross unrealised losses for fixed maturity securities classified as available-for-sale under IFRS in an unrealised loss position was £106 million (2016: £675 million). Note B1.2 provides further details on the impairment charges and unrealised losses of Jackson's available-for-sale securities.

### C3.3 Loans portfolio

#### (a) Overview of 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 or loss of the UK and Europe insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- Certain policy loans of the US insurance operations that are held to back liabilities for funds withheld under reinsurance arrangements and are also accounted on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

	2017 £m				2016 £m			
	Mortgage loans*	Policy loans†	Other loans‡	Total	Mortgage loans*	Policy loans†	Other loans‡	Total
Asia								
With-profits	–	613	112	725	–	577	113	690
Non-linked shareholder-backed	177	216	199	592	179	226	208	613
US								
Non-linked shareholder-backed	6,236	3,394	–	9,630	6,055	3,680	–	9,735
UK and Europe								
With-profits	2,441	4	1,823	4,268	668	6	1,218	1,892
Non-linked shareholder-backed	1,681	–	37	1,718	1,642	–	38	1,680
Other operations	–	–	109	109	–	–	563	563
<b>Total loans securities</b>	<b>10,535</b>	<b>4,227</b>	<b>2,280</b>	<b>17,042</b>	<b>8,544</b>	<b>4,489</b>	<b>2,140</b>	<b>15,173</b>

\* All mortgage loans are secured by properties.

† In the US £2,512 million (2016: £2,672 million) policy loans are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

‡ Other loans held in UK with-profits funds are commercial loans and comprise mainly syndicated loans. The majority of other loans in shareholder-backed business in Asia are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.3 Loans portfolio continued

##### (b) Additional information on US mortgage loans

In the US, mortgage loans are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the same risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £12.6 million (2016: £12.4 million). The portfolio has a current estimated average loan to value of 55 per cent (2016: 59 per cent).

At 31 December 2017, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (2016: none).

##### (c) Additional information on UK mortgage loans

During 2017, the UK with-profits fund invested in an entity that holds a portfolio of buy-to-let mortgage loans. The vehicle financed its acquisitions through the issue of debt instruments, largely to external parties, securitised upon the loans acquired. These third-party borrowings have no recourse to any other assets of the Group and the Group's exposure is limited to the amount invested by the UK with-profits fund.

By carrying value, 99.98 per cent of the £1,681 million (2016: 96.29 per cent of £1,642 million) mortgage loans held by the UK shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 31 per cent (2016: 30 per cent).

##### (d) Loans held by other operations

These 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:

	2017 £m	2016 £m
Loans and receivables internal ratings:		
AA+ to AA-	14	29
A+ to A-	–	100
BBB+ to BBB-	–	248
BB+ to BB-	95	185
B and other	–	1
Total	109	563

### C3.4 Financial instruments – additional information

#### (a) Financial risk

##### (i) Liquidity analysis

##### Contractual maturities of financial liabilities on an undiscounted cash flow basis

The following table sets out the contractual maturities for applicable classes of financial liabilities, excluding derivative liabilities and investment contracts that are separately presented. The financial liabilities are included in the column relating to the contractual maturities at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

	2017 £m								Total
	Total carrying value	1 Year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	
<b>Financial liabilities</b>									
Core structural borrowings of shareholder-financed operations <sup>C6.1</sup>	6,280	473	784	1,350	1,389	576	3,324	3,160	11,056
Operational borrowings attributable to shareholder-financed operations <sup>C6.2</sup>	1,791	1,130	597	69	–	–	–	–	1,796
Borrowings attributable to with-profits funds <sup>C6.2</sup>	3,716	905	922	32	29	29	1,810	104	3,831
Obligations under funding, securities lending and sale and repurchase agreements	5,662	5,662	–	–	–	–	–	–	5,662
Accruals, deferred income and other liabilities	14,185	10,088	469	68	85	106	320	3,267	14,403
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	8,889	8,889	–	–	–	–	–	–	8,889
	<b>40,523</b>	<b>27,147</b>	<b>2,772</b>	<b>1,519</b>	<b>1,503</b>	<b>711</b>	<b>5,454</b>	<b>6,531</b>	<b>45,637</b>
	2016 £m								
	Total carrying value	1 Year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	No stated maturity	Total
<b>Financial liabilities</b>									
Core structural borrowings of shareholder-financed operations <sup>C6.1</sup>	6,798	474	778	1,205	1,202	1,011	3,439	3,662	11,771
Operational borrowings attributable to shareholder-financed operations <sup>C6.2</sup>	2,317	1,657	607	69	–	–	–	–	2,333
Borrowings attributable to with-profits funds <sup>C6.2</sup>	1,349	475	748	32	20	10	60	144	1,489
Obligations under funding, securities lending and sale and repurchase agreements	5,031	5,031	–	–	–	–	–	–	5,031
Accruals, deferred income and other liabilities	13,825	9,873	320	61	80	103	322	3,272	14,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	8,687	8,687	–	–	–	–	–	–	8,687
	<b>38,007</b>	<b>26,197</b>	<b>2,453</b>	<b>1,367</b>	<b>1,302</b>	<b>1,124</b>	<b>3,821</b>	<b>7,078</b>	<b>43,342</b>

## C Balance sheet notes continued

### C3 Assets and liabilities continued

#### C3.4 Financial instruments – additional information continued

##### Maturity analysis of derivatives

The following table shows the gross and net derivative positions together with a maturity profile of the net derivative position:

	Carrying value of net derivatives £m			Maturity profile of net derivative position £m				
	Derivative assets	Derivative liabilities	Net derivative position	1 year or less	After 1 year to 3 years	After 3 years to 5 years	After 5 years	Total
2017	4,801	(2,755)	2,046	2,359	(16)	(9)	(1)	2,333
2016	3,936	(3,252)	684	1,009	(14)	(7)	18	1,006

The majority of derivative assets and liabilities have been included at fair value within the one year or less column, representing the basis on which they are managed (ie to manage principally asset or liability value exposures). The Group has no cash flow hedges and in general, contractual maturities are not considered essential for an understanding of the timing of the cash flows for these instruments. The only exception is certain identified interest rate swaps which are fully expected to be held until maturity solely for the purposes of matching cash flows on separately held assets and liabilities. For these instruments the undiscounted cash flows (including contractual interest amounts) due to be paid under the swap contract assuming conditions are consistent with those at year end are included in the column relating to the contractual maturity of the derivative.

##### Maturity analysis of investment contracts

The table below shows the maturity profile for investment contracts on undiscounted cash flow projections of expected benefit payments.

	£bn							Total undiscounted value	Total carrying value
	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years			
2017	8	29	27	19	13	14	110	83	
2016	6	24	23	16	11	9	89	73	

Most investment contracts have options to surrender early, often subject to surrender or other penalties. Therefore, most contracts can be said to have a contractual maturity of less than one year, but the additional charges and term of the contracts mean these are unlikely to be exercised in practice and the more useful information is to present information on expected payment.

The maturity profile above excludes certain corporate unit-linked business with gross policyholder liabilities of £12 billion (2016: £11 billion) which have no stated maturity but which are repayable on demand.

The vast majority of the Group's financial assets are held to back the Group's policyholder liabilities. Although asset/liability matching is an important component of managing policyholder liabilities (both those classified as insurance and those classified as investments), this profile is mainly relevant for managing market risk rather than liquidity risk. Within each business unit this asset/liability matching is performed on a portfolio-by-portfolio basis.

In terms of liquidity risk, a large proportion of the policyholder liabilities contain discretionary surrender values or surrender charges, meaning that many of the Group's liabilities are expected to be held for the long term. Much of the Group's investment portfolios are in marketable securities, which can therefore be converted quickly to liquid assets.

For the reasons provided above, an analysis of the Group's assets by contractual maturity is not considered appropriate to evaluate the nature and extent of the Group's liquidity risk.

##### (ii) Credit risk

The Group's maximum exposure to credit risk of financial instruments before any allowance for collateral or allocation of losses to policyholders is represented by the carrying value of financial instruments on the balance sheet that have exposures to credit risk comprising cash and cash equivalents, deposits, debt securities, loans and derivative assets, and other debtors, the carrying value of which are disclosed at the start of this note and note C3.4(b) below for derivative assets. The collateral in place in relation to derivatives is described in note C3.4(c) below. Note C3.3 describes the security for these loans held by the Group. The Group's exposure to credit risk is further discussed in note C7 below.

Of the total loans and receivables held, £23 million (2016: £27 million) are past their due date but are not impaired. Of the total past due but not impaired, £17 million are less than one year past their due date (2016: £20 million). The Group expects full recovery of these loans and receivables.

Financial assets that would have been past due or impaired had the terms not been renegotiated amounted to £22 million (2016: £27 million).

In addition, during 2017 and 2016 the Group did not take possession of any other collateral held as security.

Further details of collateral and pledges are provided in note C3.4(c) below.

### (iii) Foreign exchange risk

As at 31 December 2017, the Group held 24 per cent (2016: 23 per cent) and 16 per cent (2016: 12 per cent) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit.

Of these financial assets, 52 per cent (2016: 52 per cent) are held by the PAC with-profits fund, allowing the fund to obtain exposure to foreign equity markets.

Of these financial liabilities, 28 per cent (2016: 28 per cent) are held by the PAC with-profits fund, mainly relating to foreign currency borrowings.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts (note C3.4(b) below).

The amount of exchange loss recognised in the income statement in 2017, except for those arising on financial instruments measured at fair value through profit or loss, is £112 million (2016: £1,005 million gain). This constitutes £1 million gain (2016: £0.4 million gain) on Medium Term Notes liabilities and £113 million of net loss (2016: £1,005 million net gain), mainly arising on investments of the PAC with-profits fund. The gains/losses on Medium Term Notes liabilities are fully offset by value movements on cross-currency swaps, which are measured at fair value through profit or loss.

### (b) Derivatives and hedging Derivatives

The Group enters into a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps, swaptions and credit default swaps.

All over-the-counter derivative transactions, with the exception of some Asia transactions, are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual Group entities and relevant counterparties in place under each of these market master agreements.

Under Article 11 of the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories ('EMIR') and Commission Delegated Regulation (EU) 2016/2251 supplementing EMIR, market participants transacting in non-cleared OTC derivatives are required to exchange collateral to cover variation and initial margin. However, trades between counterparties belonging to the same group are exempt from these margin requirements subject to certain criteria.

Prudential Capital plc (Legal Entity Identifier reference ('LEI') CHW8NHK268SFPTV63Z64) has entered into such derivative agreements with the following five entities in the Group. These counterparty pairings meet the criteria to be eligible for intra-group exemptions to the margin requirements and have been approved by the Financial Conduct Authority:

31 Dec 2017				
Counterparty	Legal Entity Identifier (LEI)	Relationship between parties	Type of exemption	Aggregate notional of OTC derivatives contract £m
Prudential plc	5493001Z3ZE83NG K8Y12	Part of the same group holding company	Full	3,615
Prudential Holdings Limited	549300JVAI8CZD4 HD451	Part of the same group holding company	Full	110
Prudential (US HoldCo 1) Limited	549300JNYGDP2X OLWR47	Part of the same group holding company	Full	3,123
Prudential Corporation Holdings Limited	549300KDOPLFHA W51H26	Part of the same group holding company	Full	822
Prudential Lifetime Mortgages Limited	5493001GSK4HF84 IOB02	Part of the same group holding company	Full	71

Derivatives are used for efficient portfolio management to obtain cost effective and efficient management of exposure to various markets in accordance with the Group's investment strategies and to manage exposure to interest rate, currency, credit and other business risks. The Group also uses interest rate derivatives to reduce exposure to interest rate volatility. In particular:

- UK with-profits funds use derivatives for efficient portfolio management or reduction in investment risks. For UK annuity business derivatives are used to assist with asset and liability cash flow matching;
- US operations and some of the UK and Europe operations hold large amounts of interest-rate sensitive investments that contain credit risks on which a certain level of defaults is expected. These businesses have purchased some swaptions to manage the default risk on certain underlying assets and hence reduce the amount of regulatory capital held to support the assets; and
- Some products, especially in the US, have guarantee features linked to equity indices. A mismatch between guaranteed product liabilities and the performance of the underlying assets exposes the Group to equity index risk. In order to mitigate this risk, the relevant business units purchase swaptions, equity options and futures to better match asset performance with liabilities under equity-indexed products.

### C3 Assets and liabilities continued

#### C3.4 Financial instruments – additional information continued

##### Hedging

The Group has formally assessed and documented the effectiveness of the following net investment hedges under IAS 39. At 31 December 2017, the Group has designated perpetual subordinated capital securities totalling US\$4.3 billion (2016: US\$4.5 billion) as a net investment hedge to hedge the currency risks related to the net investment in Jackson. The carrying value of the subordinated capital securities was £3,140 million as at 31 December 2017 (2016: £3,644 million). The foreign exchange gain of £325 million (2016: loss of £389 million) on translation of the borrowings to pounds sterling at the statement of financial position date is recognised in the translation reserve in shareholders' equity. This net investment hedge was 100 per cent effective.

The Group has no cash flow hedges or fair value hedges in place.

##### (c) Derecognition, collateral and offsetting

###### Securities lending and reverse repurchase agreements

The Group has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. Typically, the value of collateral assets granted to the Group in these transactions is in excess of the value of securities lent, with the excess determined by the quality of the collateral assets granted. Collateral requirements are calculated on a daily basis. The loaned securities are not removed from the Group's consolidated statement of financial position, rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit.

At 31 December 2017, the Group has £8,232 million (2016: £8,545 million) of lent securities and assets subject to repurchase agreements, of which £8,182 million (2016: £8,113 million) related to the PAC with-profits fund. The cash and securities collateral held or pledged under such agreements were £8,733 million (2016: £9,086 million) of which £8,679 million (2016: £8,653 million) was held by the PAC with-profits fund.

At 31 December 2017, the Group had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £10,550 million (2016: £9,319 million).

###### Collateral and pledges under derivative transactions

At 31 December 2017, the Group had pledged £2,302 million (2016: £1,853 million) for liabilities and held collateral of £3,958 million (2016: £2,788 million) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

###### Other collateral

At 31 December 2017, the Group had pledged collateral of £3,412 million (2016: £3,384 million) in respect of other transactions.

This principally arises from Jackson's membership of the Federal Home Loan Bank of Indianapolis primarily for the purpose of participating in the bank's collateralised loan advance programme with short-term and long-term funding facilities.

## Offsetting assets and liabilities

The Group's derivative instruments, repurchase agreements and securities lending agreements are subject to master netting arrangements and collateral arrangements. A master netting arrangement with a counterparty creates a right of offset for amounts due to and due from that same counterparty that is enforceable in the event of a default or bankruptcy. The Group recognises amounts subject to master netting arrangements on a gross basis within the consolidated balance sheets.

The following tables present the gross and net information about the Group's financial instruments subject to master netting arrangements:

31 Dec 2017 £m					
	Gross amount included in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			Net amount
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	
Financial assets:					
Derivative assets	4,718	(946)	(2,641)	(984)	147
Reverse repurchase agreements	10,280	–	–	(10,270)	10
<b>Total financial assets</b>	<b>14,998</b>	<b>(946)</b>	<b>(2,641)</b>	<b>(11,254)</b>	<b>157</b>
Financial liabilities:					
Derivative liabilities	(2,301)	946	420	893	(42)
Securities lending and repurchase agreements	(1,410)	–	52	1,332	(26)
<b>Total financial liabilities</b>	<b>(3,711)</b>	<b>946</b>	<b>472</b>	<b>2,225</b>	<b>(68)</b>

31 Dec 2016 £m					
	Gross amount included in the consolidated statement of financial position note (i)	Related amounts not offset in the consolidated statement of financial position			Net amount
		Financial instruments note (ii)	Cash collateral	Securities collateral note (iii)	
Financial assets:					
Derivative assets	3,869	(1,053)	(1,895)	(733)	188
Reverse repurchase agreements	9,132	–	–	(9,132)	–
<b>Total financial assets</b>	<b>13,001</b>	<b>(1,053)</b>	<b>(1,895)</b>	<b>(9,865)</b>	<b>188</b>
Financial liabilities:					
Derivative liabilities	(2,874)	1,053	698	1,028	(95)
Securities lending and repurchase agreements	(1,927)	–	97	1,830	–
<b>Total financial liabilities</b>	<b>(4,801)</b>	<b>1,053</b>	<b>795</b>	<b>2,858</b>	<b>(95)</b>

### Notes

- (i) The Group has not offset any of the amounts included in the consolidated statement of financial position.
- (ii) Represents the amount that could be offset under master netting or similar arrangements where the Group does not satisfy the full criteria to offset on the consolidated statement of financial position.
- (iii) Excludes initial margin amounts for exchange-traded derivatives.

In the tables above, the amounts of assets or liabilities included in the consolidated statement of financial position would be offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables.

## C Balance sheet notes continued

### C4 Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

#### C4.1 Movement and duration of liabilities

##### (a) Group overview

##### (i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Insurance operations £m			Total
	Asia note C4.1(b)	US note C4.1(c)	UK and Europe note C4.1(d)	
At 1 January 2016	48,778	138,913	152,893	340,584
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	41,255	138,913	142,350	322,518
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	–	10,543	13,096
– Group's share of policyholder liabilities of joint ventures and associate <sup>‡</sup>	4,970	–	–	4,970
Reclassification of Korea life business as held for sale*	(2,812)	–	–	(2,812)
Net flows:				
Premiums	9,639	14,766	11,129	35,534
Surrenders	(2,299)	(7,872)	(6,821)	(16,992)
Maturities/deaths	(1,558)	(1,696)	(6,835)	(10,089)
Net flows	5,782	5,198	(2,527)	8,453
Shareholders' transfers post-tax	(44)	–	(215)	(259)
Investment-related items and other movements	2,005	5,690	18,626	26,321
Foreign exchange translation differences	9,075	27,825	527	37,427
<b>As at 31 December 2016/1 January 2017</b>	<b>62,784</b>	<b>177,626</b>	<b>169,304</b>	<b>409,714</b>
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position <sup>§</sup>	53,716	177,626	157,654	388,996
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	–	11,650	14,317
– Group's share of policyholder liabilities of joint ventures and associate <sup>‡</sup>	6,401	–	–	6,401
Net flows:				
Premiums	11,863	15,219	14,810	41,892
Surrenders	(3,079)	(10,017)	(6,939)	(20,035)
Maturities/deaths	(1,909)	(2,065)	(7,135)	(11,109)
Net flows	6,875	3,137	736	10,748
Shareholders' transfers post-tax	(54)	–	(233)	(287)
Investment-related items and other movements	8,182	16,251	11,146	35,579
Foreign exchange translation differences	(3,948)	(16,290)	113	(20,125)
<b>At 31 December 2017</b>	<b>73,839</b>	<b>180,724</b>	<b>181,066</b>	<b>435,629</b>
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position <sup>§</sup> (excludes £32 million classified as unallocated to a segment)	62,898	180,724	167,589	411,211
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,474	–	13,477	16,951
– Group's share of policyholder liabilities of joint ventures and associate <sup>‡</sup>	7,467	–	–	7,467
Average policyholder liability balances <sup>†</sup>				
<b>2017</b>	<b>65,241</b>	<b>179,175</b>	<b>162,622</b>	<b>407,038</b>
2016	51,765	158,270	150,003	360,038

\* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

† Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the year and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures and associates are accounted for on an equity method basis in the Group's balance sheet. The Group's share of the policyholder liabilities as shown above relate to life businesses in China, India and of the Takaful business in Malaysia.

§ The policyholder liabilities of the Asia insurance operations of £62,898 million (2016: £53,716 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,235 million (2016: £1,302 million) to the Hong Kong with-profits business. Including this amount, total Asia policyholder liabilities are £64,133 million (2016: £55,018 million).



The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year but exclude liabilities that have not been allocated to a reporting segment. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above will exclude any deductions for fees/charges. Claims (surrenders, maturities and deaths) represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

### (ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Shareholder-backed business £m			
	Asia	US	UK and Europe	Total
At 1 January 2016	27,844	138,913	52,824	219,581
Reclassification of Korea life business as held for sale*	(2,812)	–	–	(2,812)
Net flows:				
Premiums	4,749	14,766	1,842	21,357
Surrenders	(1,931)	(7,872)	(2,967)	(12,770)
Maturities/deaths	(732)	(1,696)	(2,521)	(4,949)
Net flows <sup>note (a)</sup>	2,086	5,198	(3,646)	3,638
Investment-related items and other movements	1,116	5,690	6,980	13,786
Foreign exchange translation differences	4,617	27,825	–	32,442
<b>At 31 December 2016/1 January 2017</b>	<b>32,851</b>	<b>177,626</b>	<b>56,158</b>	<b>266,635</b>
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	26,450	177,626	56,158	260,234
– Group's share of policyholder liabilities relating to joint ventures and associate	6,401	–	–	6,401
Net flows:				
Premiums	6,064	15,219	2,283	23,566
Surrenders	(2,755)	(10,017)	(2,433)	(15,205)
Maturities/deaths	(1,008)	(2,065)	(2,571)	(5,644)
Net flows <sup>note (a)</sup>	2,301	3,137	(2,721)	2,717
Investment-related items and other movements	3,797	16,251	2,930	22,978
Foreign exchange translation differences	(1,547)	(16,290)	–	(17,837)
<b>At 31 December 2017</b>	<b>37,402</b>	<b>180,724</b>	<b>56,367</b>	<b>274,493</b>
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position (excludes £32 million classified as unallocated to a segment)	29,935	180,724	56,367	267,026
– Group's share of policyholder liabilities relating to joint ventures and associate	7,467	–	–	7,467

\* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

#### Note

(a) Including net flows of the Group's insurance joint ventures and associate.

## C Balance sheet notes continued

### C4 Policyholder liabilities and unallocated surplus continued

#### C4.1 Movement and duration of liabilities continued

##### (iii) Movement in insurance contract liabilities and unallocated surplus of with-profits funds

Further analysis of the movement in the year of the Group's insurance contract liabilities, gross and reinsurance share, and unallocated surplus of with-profits funds is provided below:

	Insurance contract liabilities		Unallocated surplus of with-profits funds £m
	Gross £m	Reinsurers' share £m	
At 1 January 2016	260,753	6,992	13,096
Income and expense included in the income statement and other comprehensive income	20,210	752	768
Foreign exchange translation differences	35,472	1,221	453
<b>At 31 December 2016/1 January 2017</b>	<b>316,435</b>	<b>8,965</b>	<b>14,317</b>
Income and expense included in the income statement and other comprehensive income	31,142	422	2,949
Foreign exchange translation differences	(19,405)	(667)	(315)
<b>At 31 December 2017</b>	<b>328,172</b>	<b>8,720</b>	<b>16,951</b>

##### (iv) Reinsurers' share of insurance contract liabilities

	Asia	US	UK and Europe	Unallocated to a segment	2017 £m	2016 £m
Insurance contract liabilities	1,912	5,672	1,136	–	8,720	8,965
Claims outstanding	48	752	150	3	953	1,086
	<b>1,960</b>	<b>6,424</b>	<b>1,286</b>	<b>3</b>	<b>9,673</b>	<b>10,051</b>

The Group cedes certain business to other insurance companies. Although the ceding of insurance does not relieve the Group from its liability to its policyholders, the Group participates in such agreements for the purpose of managing its loss exposure. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risk from similar geographic regions, activities or economic characteristics of the reinsurers to minimise its exposure from reinsurer insolvencies. Of the reinsurers' share of insurance contract liabilities balance of £9,673 million at 31 December 2017 (2016: £10,051 million), 80 per cent (2016: 85 per cent) were ceded by the Group's UK and Europe and US operations, of which 96 per cent (2016: 96 per cent) of the balance were from reinsurers with Standard & Poor's rating A- and above.

The reinsurance asset for Jackson as shown in the table above primarily relates to certain fully collateralised former REALIC business retained by Swiss Re through 100 per cent reinsurance agreements. Apart from the reinsurance of REALIC business, the principal reinsurance ceded by Jackson outside the Group is on term-life insurance, direct and assumed accident and health business and GMIB variable annuity guarantees. Net commissions received on ceded business and claims incurred ceded to external reinsurers totalled £28 million and £526 million respectively during 2017 (2016: £38 million and £500 million respectively). There were no deferred gains or losses on reinsurance contracts in either 2017 or 2016.

In each of 2017 and 2016, the Group's UK and Europe insurance business entered into longevity reinsurance transactions on certain aspects of the UK's annuity liabilities. Further information on these transactions is provided in note B3(c). The gains and losses recognised in profit and loss for the other reinsurance contracts written in the year were immaterial.

**(b) Asia insurance operations****(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds**

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the year to the end of the year is as follows:

	With-profits business £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2016	20,934	15,966	11,878	48,778
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position	18,381	13,355	9,519	41,255
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	–	–	2,553
– Group's share of policyholder liabilities relating to joint ventures and associate <sup>‡</sup>	–	2,611	2,359	4,970
Reclassification of Korea life business as held for sale*	–	(2,187)	(625)	(2,812)
<b>Premiums</b>				
New business	1,701	921	767	3,389
In-force	3,189	1,447	1,614	6,250
	4,890	2,368	2,381	9,639
Surrenders <sup>note (c)</sup>	(368)	(1,641)	(290)	(2,299)
Maturities/deaths	(826)	(78)	(654)	(1,558)
<b>Net flows <sup>note (b)</sup></b>	<b>3,696</b>	<b>649</b>	<b>1,437</b>	<b>5,782</b>
Shareholders' transfers post-tax	(44)	–	–	(44)
Investment-related items and other movements	889	621	495	2,005
Foreign exchange translation differences <sup>note (a)</sup>	4,458	2,458	2,159	9,075
<b>At 31 December 2016/1 January 2017</b>	<b>29,933</b>	<b>17,507</b>	<b>15,344</b>	<b>62,784</b>
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position	27,266	14,289	12,161	53,716
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	–	–	2,667
– Group's share of policyholder liabilities relating to joint ventures and associate <sup>‡</sup>	–	3,218	3,183	6,401
<b>Premiums</b>				
New business	1,143	1,298	999	3,440
In-force	4,656	1,637	2,130	8,423
	5,799	2,935	3,129	11,863
Surrenders <sup>note (c)</sup>	(324)	(2,288)	(467)	(3,079)
Maturities/deaths	(901)	(150)	(858)	(1,909)
<b>Net flows <sup>note (b)</sup></b>	<b>4,574</b>	<b>497</b>	<b>1,804</b>	<b>6,875</b>
Shareholders' transfers post-tax	(54)	–	–	(54)
Investment-related items and other movements <sup>note (d)</sup>	4,385	2,830	967	8,182
Foreign exchange translation differences <sup>note (a)</sup>	(2,401)	(807)	(740)	(3,948)
<b>At 31 December 2017 <sup>note (b)</sup></b>	<b>36,437</b>	<b>20,027</b>	<b>17,375</b>	<b>73,839</b>
<i>Comprising:</i>				
– Policyholder liabilities on the consolidated statement of financial position <sup>§</sup>	32,963	16,263	13,672	62,898
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,474	–	–	3,474
– Group's share of policyholder liabilities relating to joint ventures and associate <sup>‡</sup>	–	3,764	3,703	7,467
<b>Average policyholder liability balances<sup>†</sup></b>				
<b>2017</b>	<b>30,115</b>	<b>18,767</b>	<b>16,359</b>	<b>65,241</b>
2016	22,823	15,643	13,299	51,765

## C4 Policyholder liabilities and unallocated surplus continued

### C4.1 Movement and duration of liabilities continued

\* The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

† Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the year and exclude unallocated surplus of with-profits funds.

‡ The Group's investment in joint ventures and associate are accounted for on an equity method basis and the Group's share of the policyholder liabilities as shown above relate to the life businesses in China, India and of the Takaful business in Malaysia.

§ The policyholder liabilities of the with-profits business of £32,963 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by UK and Europe insurance operations of £1,235 million to the Hong Kong with-profits business (2016: £1,302 million). Including this amount the Asia with-profits policyholder liabilities are £34,198 million.

#### Notes

- (a) Movements in the year have been translated at the average exchange rates for the year. The closing balance has been translated at the closing spot rates as at the end of the year. Differences upon retranslation are included in foreign exchange translation differences.
- (b) Net flows have increased by £1,093 million to £6,875 million in 2017 predominantly reflecting continued growth of the in-force book and increased flows from new business.
- (c) Investment-related items and other movements for 2017 principally represent equity market gains and falls in bond yields during the year, in a number of business units with the greatest impact being on with-profits and unit-linked business.

#### (ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis for 2017 and 2016, taking account of expected future premiums and investment returns:

	2017 £m	2016 £m
Policyholder liabilities	62,898	53,716
	%	%
Expected maturity:		
0 to 5 years	21	23
5 to 10 years	19	20
10 to 15 years	16	16
15 to 20 years	12	11
20 to 25 years	10	9
Over 25 years	22	21

#### (iii) Summary policyholder liabilities (net of reinsurance) and unallocated surplus

At 31 December 2017, the policyholder liabilities and unallocated surplus for Asia operations excluding joint ventures and after deducting intra-group reinsurance liabilities ceded by UK and Europe of £66,372 million (2016: £56,383 million), net of external reinsurance of £1,961 million (2016: £1,539 million), comprised the following:

	2017 £m	2016 £m
Hong Kong	29,411	23,852
Indonesia	3,762	3,405
Malaysia	5,014	4,332
Singapore	17,432	15,324
Taiwan	3,729	3,504
Other operations	5,062	4,427
Total Asia operations	64,410	54,844

**(c) US insurance operations****(i) Analysis of movements in policyholder liabilities**

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the year to the end of the year is as follows:

**US insurance operations**

	Variable annuity separate account liabilities £m	Fixed annuity, GIC and other business £m	Total £m
At 1 January 2016	91,022	47,891	138,913
Premiums	10,232	4,534	14,766
Surrenders	(5,036)	(2,836)	(7,872)
Maturities/deaths	(803)	(893)	(1,696)
Net flows <sup>note (b)</sup>	4,393	805	5,198
Transfers from general to separate account	1,164	(1,164)	–
Investment-related items and other movements	5,246	444	5,690
Foreign exchange translation differences <sup>note (a)</sup>	18,586	9,239	27,825
<b>At 31 December 2016/1 January 2017</b>	<b>120,411</b>	<b>57,215</b>	<b>177,626</b>
Premiums	11,529	3,690	15,219
Surrenders	(6,997)	(3,020)	(10,017)
Maturities/deaths	(1,026)	(1,039)	(2,065)
Net flows <sup>note (b)</sup>	3,506	(369)	3,137
Transfers from general to separate account	2,096	(2,096)	–
Investment-related items and other movements <sup>note (c)</sup>	15,956	295	16,251
Foreign exchange translation differences <sup>note (a)</sup>	(11,441)	(4,849)	(16,290)
<b>At 31 December 2017</b>	<b>130,528</b>	<b>50,196</b>	<b>180,724</b>
Average policyholder liability balances*			
<b>2017</b>	<b>125,469</b>	<b>53,706</b>	<b>179,175</b>
2016	105,717	52,553	158,270

\* Averages have been based on opening and closing balances.

**Notes**

- (a) Movements in the year have been translated at an average rate of US\$1.29/£1.00 (2016: US\$1.35/£1.00). The closing balances have been translated at closing rate of US\$1.35/£1.00 (2016: US\$1.24/£1.00). Differences upon retranslation are included in foreign exchange translation differences.
- (b) Net flows were £3,137 million in 2017, reflecting continued strong inflows into the variable annuity business.
- (c) Positive investment-related items and other movements in variable annuity separate account liabilities of £15,956 million for 2017 primarily reflects the increases in equities and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £295 million primarily reflect the increase in guarantee reserve in the year.

## C Balance sheet notes continued

### C4 Policyholder liabilities and unallocated surplus continued

#### C4.1 Movement and duration of liabilities continued

##### (ii) Duration of liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis for 2017 and 2016:

	2017 £m			2016 £m		
	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity separate account liabilities	Total	Fixed annuity and other business (including GICs and similar contracts)	Variable annuity separate account liabilities	Total
Policyholder liabilities	50,196	130,528	180,724	57,215	120,411	177,626
	2017 %			2016 %		
Expected maturity:						
0 to 5 years	50	42	44	49	43	45
5 to 10 years	25	29	28	26	29	28
10 to 15 years	12	15	14	11	14	14
15 to 20 years	7	8	8	7	8	7
20 to 25 years	3	4	4	3	4	3
Over 25 years	3	2	2	4	2	3

##### (iii) Aggregate account values

The table below shows the distribution of account values for fixed annuities (fixed interest rate and fixed index), the fixed account portion of variable annuities, and interest-sensitive life business within the range of minimum guaranteed interest rates as described in note C4.2(b) as at 31 December 2017 and 2016:

Minimum guaranteed interest rate	Fixed annuities and the fixed account portion of variable annuities £m		Interest-sensitive life business £m	
	2017	2016	2017	2016
> 0% – 1.00%	6,887	7,765	–	–
> 1.0% – 2.0%	7,385	8,718	–	–
> 2.0% – 3.0%	9,799	11,249	221	243
> 3.0% – 4.0%	1,272	1,456	2,341	2,675
> 4.0% – 5.0%	1,744	1,954	2,059	2,333
> 5.0% – 6.0%	220	247	1,651	1,839
Total	27,307	31,389	6,272	7,090

**(d) UK and Europe insurance operations****(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds**

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK and Europe insurance operations from the beginning of the year to the end of the year is as follows:

	Shareholder-backed funds and subsidiaries			Total £m
	With-profits sub-funds <sup>†</sup> £m	Unit-linked liabilities £m	Annuity and other long-term business £m	
At 1 January 2016	100,069	21,442	31,382	152,893
Comprising:				
– Policyholder liabilities	89,526	21,442	31,382	142,350
– Unallocated surplus of with-profits funds	10,543	–	–	10,543
Premiums	9,287	1,227	615	11,129
Surrenders	(3,854)	(2,889)	(78)	(6,821)
Maturities/deaths	(4,314)	(583)	(1,938)	(6,835)
Net flows <sup>note (a)</sup>	1,119	(2,245)	(1,401)	(2,527)
Shareholders' transfers post-tax	(215)	–	–	(215)
Switches	(152)	152	–	–
Investment-related items and other movements	11,798	2,770	4,058	18,626
Foreign exchange translation differences	527	–	–	527
<b>At 31 December 2016/1 January 2017</b>	<b>113,146</b>	<b>22,119</b>	<b>34,039</b>	<b>169,304</b>
Comprising:				
– Policyholder liabilities	101,496	22,119	34,039	157,654
– Unallocated surplus of with-profits funds	11,650	–	–	11,650
Premiums	12,527	1,923	360	14,810
Surrenders	(4,506)	(2,342)	(91)	(6,939)
Maturities/deaths	(4,564)	(612)	(1,959)	(7,135)
Net flows <sup>note (a)</sup>	3,457	(1,031)	(1,690)	736
Shareholders' transfers post-tax	(233)	–	–	(233)
Switches	(192)	192	–	–
Investment-related items and other movements <sup>note (b)</sup>	8,408	1,865	873	11,146
Foreign exchange translation differences	113	–	–	113
<b>At 31 December 2017</b>	<b>124,699</b>	<b>23,145</b>	<b>33,222</b>	<b>181,066</b>
Comprising:				
– Policyholder liabilities	111,222	23,145	33,222	167,589
– Unallocated surplus of with-profits funds	13,477	–	–	13,477
Average policyholder liability balances* <b>2017</b>	<b>106,359</b>	<b>22,632</b>	<b>33,631</b>	<b>162,622</b>
2016	95,511	21,781	32,711	150,003

\* Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

† Includes the Scottish Amicable Insurance Fund.

**Notes**

- (a) Net flows improved from negative £(2,527) million in 2016 to positive £736 million in 2017, due primarily to higher premium flows into our with-profits funds following increased sales into with-profits savings and retirement products. This has been offset by lower premiums into our annuity business following our withdrawal from this market in the UK. The level of inflows/outflows for unit-linked business remains subject to annual variation as it is driven by corporate pension schemes with transfers in or out from a small number of schemes influencing the level of flows in the period.
- (b) Investment-related items and other movements of £11,146 million principally comprise investment return attributable to policyholders earned in the period reflecting favourable equity market movements.

## C Balance sheet notes continued

### C4 Policyholder liabilities and unallocated surplus continued

#### C4.1 Movement and duration of liabilities continued

##### (ii) Duration of liabilities

With the exception of most unithised with-profits bonds and other whole of life contracts, the majority of the contracts of UK and Europe insurance operations have a contract term. In effect, the maturity term of the other contracts reflects the earlier of death, maturity, or the policy lapsing. In addition, as described in note A3.1, with-profits contract liabilities include projected future bonuses based on current investment values. The actual amounts payable will vary with future investment performance of SAIF and the WPSF.

The following tables show the carrying value of the policyholder liabilities and the maturity profile of the cash flows, on a discounted basis for 2017 and 2016:

	2017 £m									
	With-profits business			Annuity business (insurance contracts)			Other			Total
	Insurance contracts	Investment contracts	Total	Non-profit annuities within WPSF	Shareholder-backed annuity	Total	Insurance contracts	Investment contracts	Total	
Policyholder liabilities	38,285	62,328	100,613	10,609	32,572	43,181	6,714	17,081	23,795	167,589
	2017 %									
Expected maturity:										
0 to 5 years	33	37	36	31	26	27	41	31	34	34
5 to 10 years	23	27	25	24	23	23	26	22	23	25
10 to 15 years	16	17	17	17	18	18	15	18	17	17
15 to 20 years	11	10	10	11	13	13	9	13	12	11
20 to 25 years	7	4	5	7	9	9	5	8	7	6
over 25 years	10	5	7	10	11	10	4	8	7	7
	2016 £m									
Policyholder liabilities	37,848	52,495	90,343	11,153	33,881	45,034	6,111	16,166	22,277	157,654
	2016 %									
Expected maturity:										
0 to 5 years	37	37	37	29	25	26	40	34	37	34
5 to 10 years	23	29	26	24	22	23	23	23	23	25
10 to 15 years	15	16	16	18	18	18	12	17	15	17
15 to 20 years	9	10	10	12	14	13	7	12	10	11
20 to 25 years	7	4	5	7	9	9	4	7	6	6
over 25 years	9	4	6	10	12	11	14	7	9	7

- The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.
- Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.
- Shareholder-backed annuity business includes the ex-PRIL and the legacy PAC shareholder annuity business.
- Investment contracts under 'Other' comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.
- For business with no maturity term included within the contracts; for example, with-profits investment bonds such as Prudence Bonds, an assumption is made as to likely duration based on prior experience.



**(iii) Annuitant mortality**

Mortality assumptions for UK annuity business are set in light of recent population and internal experience. The assumptions used are based on standard population mortality tables (PCMA08/PCFA08 for males/females in 2017 and PCMA00/PCFA00 in 2016), with an allowance for expected future mortality improvements. The standard population tables are adjusted to reflect the features of the Company's portfolio. For 2017 these portfolio-specific adjustments have been revised so that adjustments are now applied on a per policy basis, rather than across larger groupings, and therefore disclosure of broad percentage adjustments to the standard tables would no longer appropriately reflect the methodology applied. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality.

New mortality projection models are released regularly by the Continuous Mortality Investigation (CMI). The CMI 2015 model was used to produce the 2017 results and the CMI 2014 model was used to produce the 2016 results, calibrated to reflect the Company's view of future mortality improvements. The tables and range of percentages used are summarised in the table below:

<b>CMI Model, with calibration to reflect future mortality improvements</b>		
<b>2017</b>	<b>CMI 2015</b>	<b>For males: with a long-term improvement rate of 2.25% pa For females: with a long-term improvement rate of 2.00% pa</b>
2016	CMI 2014	For males: with a long-term improvement rate of 2.25% pa* For females: with a long-term improvement rate of 1.50% pa*

\* In 2016, for both males and females, the initial rates of mortality improvement in the CMI model 2014 were uplifted by 0.25 per cent per annum.

For annuities in deferment, the tables used were AM92 – four years (males) and AF92 – four years (females) for 2017 and 2016.

**C4.2 Products and determining contract liabilities****(a) Asia**

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>With-profits and participating contracts</b>	Provides savings and/or protection where the basic sum assured can be enhanced by a profit share (or bonus) from the underlying fund as determined at the discretion of the Company.	Participating products often offer a guaranteed maturity or surrender value. Declared regular bonus are guaranteed once vested. Future bonus rates and cash dividends are not guaranteed. Market value adjustments and surrender penalties are used for certain products where the law permits such adjustments. Guarantees are predominantly supported by segregated life funds and their estates.	With-profits contracts are predominantly sold in Hong Kong, Malaysia and Singapore. The total value of the with-profits funds is driven by the underlying asset valuation with movements reflected principally in the accounting value of policyholder liabilities and unallocated surplus.  In Taiwan and India, US GAAP is applied for measuring insurance assets and liabilities. The other Asia operations principally adopt a gross premium valuation method.

**C4 Policyholder liabilities and unallocated surplus** continued

**C4.2 Products and determining contract liabilities** continued

**(a) Asia** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Term, whole life and endowment assurance</b>	Non-participating savings and/or protection where the benefits are guaranteed, or determined by a set of defined market-related parameters.	These products often offer a guaranteed maturity and surrender value. It is common in Asia for regulations or market-driven demand and competition to provide some form of capital value protection and minimum crediting interest rate guarantees. This is reflected within the guaranteed maturity and surrender values. Guarantees are borne by shareholders.	<p>The approach to determining the contract liabilities is generally driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance for assumptions to deviate from best estimate or by applying an overlay constraint so that no negative reserves (ie where future premium inflows are expected to exceed prudent future claims and outflows) are derived at an individual policyholder level or a combination of both.</p> <p>In Vietnam, the Company uses an estimation basis aligned substantially to that used by the countries applying the gross premium valuation method.</p> <p>For India and Taiwan, US GAAP is applied for measuring insurance liabilities. For these countries, the future policyholder benefit provisions for non-linked business are determined using the net level premium method, with an allowance for surrenders, maintenance and claims expenses. Rates of interest used in establishing the policyholder benefit provisions vary by operation depending on the circumstances attaching to each block of business.</p> <p>The other Asia operations principally adopt a net premium valuation method to determine the future policyholder benefit provisions.</p>
<b>Unit-linked</b>	Combines savings with protection, the cash value of the policy depends on the value of the underlying unitised funds.		<p>The attaching liabilities reflect the unit value obligation driven by the value of the investments of the unit fund. Additional technical provisions are held for guaranteed benefits beyond the unit fund value using a gross premium valuation method. These additional provisions are recognised as a component of other business liabilities.</p>

**(a) Asia** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Health and protection</b>	Health and protection features are offered as supplements to the products listed above or sold as stand-alone products. Protection covers mortality or morbidity benefits including health, disability, critical illness and accident coverage.		The determination of the liabilities of health and protection contracts are driven by the local solvency basis. A gross premium valuation method is used in those countries where a risk-based capital framework is adopted for local solvency. Under the gross premium valuation method, all cash flows are valued explicitly using best estimate assumptions with a suitable margin for prudence. This is achieved either through adding an explicit allowance for assumptions to deviate from best estimate or by applying an overlay constraint so that no negative reserves (ie where future premium inflows are expected to exceed prudent future claims and outflows) are derived at an individual policyholder level or a combination of both.

**(b) US**

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Fixed interest rate annuities</b>	Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. At 31 December 2017, fixed interest rate annuities accounted for 7 per cent (2016: 8 per cent) of policy and contract liabilities of Jackson.	Guaranteed minimum interest rate. At 31 December 2017, Jackson had fixed interest rate annuities totalling £12.6 billion (2016: £14.2 billion) in account value with minimum guaranteed rates ranging from 1.0 per cent to 5.5 per cent and a 2.93 per cent average guaranteed rate (2016: 1.0 per cent to 5.5 per cent and a 2.96 per cent average guaranteed rate).	As explained in note A3.1 all of Jackson's insurance liabilities are based on US GAAP. An overview of the deferral and amortisation of acquisition costs for Jackson is provided in note C5(b).  With minor exceptions the following is applied to most of Jackson's contracts. Contracts are accounted for as investment contracts as defined for US GAAP purposes by applying a retrospective deposit method to determine the liability for policyholder benefits.

**C4 Policyholder liabilities and unallocated surplus** continued

**C4.2 Products and determining contract liabilities** continued

**(b) US** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Fixed interest rate annuities</b> continued	<p>The policyholder of a fixed interest rate annuity pays Jackson a premium, which is credited to the policyholder's account. Periodically, interest is credited to the policyholder's account and in some cases administrative charges are deducted from the policyholder's account. Jackson makes benefit payments at a future date as specified in the policy based on the value of the policyholder's account at that date.</p> <p>The policy provides that at Jackson's discretion it may reset the interest rate, subject to a guaranteed minimum.</p> <p>Approximately 60 per cent (2016: 62 per cent) of the fixed interest rate annuities Jackson wrote in 2017 provide for a (positive or negative) market value adjustment (MVA) on surrender. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move.</p>		<p>This is then augmented by:</p> <ul style="list-style-type: none"> <li>— Any amounts that have been assessed to compensate the insurer for services to be performed over future periods (ie deferred income);</li> <li>— Any amounts previously assessed against policyholders that are refundable on termination of the contract; and</li> <li>— Any probable future loss on the contract (ie premium deficiency).</li> </ul> <p>Capitalised acquisition costs and deferred income for these contracts are amortised over the life of the book of contracts.</p> <p>The present value of the estimated gross profits is computed using the rate of interest that accrues to policyholder balances (sometimes referred to as the contract rate).</p> <p>Estimated gross profits include estimates of the following, each of which will be determined based on the best estimate of amounts over the life of the book of contracts without provision for adverse deviation:</p> <ul style="list-style-type: none"> <li>— Amounts expected to be assessed for mortality less benefit claims in excess of related policyholder balances;</li> <li>— Amounts expected to be assessed for contract administration less costs incurred for contract administration;</li> <li>— Amounts expected to be earned from the investment of policyholder balances less interest credited to policyholder balances;</li> <li>— Amounts expected to be assessed against policyholder balances upon termination of contracts (sometimes referred to as surrender charges); and</li> <li>— Other expected assessments and credits.</li> </ul> <p>The interest guarantees are not explicitly valued but are reflected as they are earned in the current account liability value.</p>

**(b) US** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Fixed index annuities</b>	<p>Fixed index annuities vary in structure but are generally deferred annuities that enable policyholders to obtain a portion of an equity-linked return (based on participation rates and caps), and provide a guaranteed minimum return. Fixed index annuities accounted for 5 per cent (2016: 6 per cent) of Jackson's policy and contract liabilities at 31 December 2017.</p> <p>Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of hedging is taken into account in setting the index participation rates or caps.</p>	<p>Guaranteed minimum rates are generally set at 1.0 to 3.0 per cent. At 31 December 2017, Jackson had fixed index annuities allocated to indexed funds totalling £6.3 billion (2016: £7.3 billion) in account value with minimum guaranteed rates on index accounts ranging from 1.0 per cent to 3.0 per cent and a 1.77 per cent average guaranteed rate (2016: 1.0 per cent to 3.0 per cent and a 1.77 per cent average guarantee rate).</p> <p>Jackson offers an optional lifetime income rider, which can be elected for an additional fee.</p> <p>Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2017, fixed interest accounts of fixed index annuities totalled £2.5 billion (2016: £2.6 billion) in account value.</p> <p>Minimum guaranteed rates on fixed interest accounts range from 1.0 per cent to 3.0 per cent and a 2.58 per cent average guaranteed rate (2016: 1.0 per cent to 3.0 per cent and a 2.55 per cent average guaranteed rate).</p>	<p>The liability for policyholder benefits that represent the guaranteed minimum return is determined similarly to the liabilities of the fixed interest annuity above. The equity-linked return option within the contract is treated as an embedded liability under US GAAP and therefore this element of the liability is recognised at fair value.</p>

**C4 Policyholder liabilities and unallocated surplus** continued

**C4.2 Products and determining contract liabilities** continued

**(b) US** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Variable annuities</b>	<p>Variable annuities are deferred annuities that have the same tax advantages and payout options as fixed interest rate and fixed index annuities. They are also used for asset accumulation in retirement planning and to provide income in retirement. At 31 December 2017, variable annuities accounted for 77 per cent (2016: 74 per cent) of Jackson's policy and contract liabilities.</p> <p>The rate of return depends upon the performance of the selected fund portfolio. Policyholders may allocate their investment to either the fixed account or a selection of variable accounts. Subject to benefit guarantees, investment risk on the variable account is borne by the policyholder, while investment risk on the fixed account is borne by Jackson through guaranteed minimum fixed rates of return. At 31 December 2017, 5 per cent (2016: 6 per cent) of variable annuity funds were in fixed accounts.</p>	<p>Jackson had variable annuity funds in fixed accounts totalling £5.9 billion (2016: £7.3 billion) with minimum guaranteed rates ranging from 1.0 per cent to 3.0 per cent and a 1.68 per cent average guaranteed rate (2016: 1.0 per cent to 3.0 per cent and a 1.64 per cent average guaranteed rate).</p> <p>Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which can be elected for additional fees. These guaranteed benefits might be expressed as the return of either: (a) total deposits made to the contract adjusted for any partial withdrawals, (b) total deposits made to the contract adjusted for any partial withdrawals, plus a minimum return, or (c) the highest contract value on a specified anniversary date adjusted for any withdrawals following that contract anniversary.</p> <p>Jackson hedges these risks using derivative instruments as described in note C7.3.</p>	<p>The general principles for fixed annuity and fixed index annuity also apply to variable annuities.</p> <p>The impact of any fixed account interest guarantees is reflected as they are earned in the current account value.</p> <p>Jackson regularly evaluates estimates used and adjusts the benefit guarantee liability balances, with a related charge or credit to benefit expense if actual experience or other evidence suggests that earlier assumptions should be revised.</p>

**(b) US** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Variable annuities</b> continued		<p>The benefit guarantee types are set out below:</p> <p>Benefits that are payable in the event of death (guaranteed minimum death benefit).</p>	<p>The liability for Guaranteed Minimum Death Benefit (GMDB) is determined each period end by estimating the expected value of benefits in excess of the projected account balance and recognising the excess ratably over the life of the contract based on total expected assessments. At 31 December 2017, these liabilities were valued using a series of stochastic investment performance scenarios, a mean investment return of 7.4 per cent (2016: 7.4 per cent) net of external fund management fees, and assumptions for policyholder behaviour, mortality and expense that are similar to those used in amortising the capitalised acquisition costs.</p>
		<p>Benefits that are payable upon the depletion of funds (guaranteed minimum withdrawal benefit).</p>	<p>The liability for the Guaranteed Minimum Withdrawal Benefit (GMWB) 'for life' portion is determined similarly to GMDB above.</p> <p>Guaranteed Minimum Withdrawal Benefit 'not for life' features are treated as embedded derivatives under US GAAP. Therefore, provisions for these benefits are recognised at fair value.</p> <p>Non-performance risk is incorporated into the fair value calculation through the use of discount interest rates sourced from an AA corporate credit curve as a proxy for Jackson's own credit risk. Other risk margins, particularly for policyholder behaviour and long-term volatility, are also incorporated into the model through the use of explicitly conservative assumptions. On a periodic basis, Jackson validates the resulting fair values based on comparisons to other models and market movements.</p>

**C4 Policyholder liabilities and unallocated surplus** continued

**C4.2 Products and determining contract liabilities** continued

**(b) US** continued

<i>Contract type</i>	<i>Description</i>	<i>Material features</i>	<i>Determination of liabilities</i>
<b>Variable annuities</b> continued		<p>Benefits that are payable at annuitisation (guaranteed minimum income benefit).</p> <p>This feature is no longer offered and existing coverage is substantially reinsured, subject to deductibles and annual claim limits.</p>	<p>The direct Guaranteed Minimum Income Benefit (GMIB) liability is determined by estimating the expected value of the annuitisation benefits in excess of the projected account balance at the date of annuitisation and recognising the excess ratably over the life of the contract based on total expected assessments.</p> <p>Guaranteed Minimum Income Benefits are reinsured, subject to a deductible and annual claim limits. As this reinsurance benefit is net settled, it is considered to be a derivative under IAS 39, and is therefore recognised at fair value with the change in fair value included as a component of short-term fluctuations.</p> <p>Volatility and non-performance risk is considered as per GMWB above.</p>
		<p>Benefits that are payable at the end of a specified period (guaranteed minimum accumulation benefit).</p> <p>This feature is no longer offered.</p>	<p>Guaranteed Minimum Accumulation Benefit (GMAB) are treated as embedded derivatives under US GAAP. Therefore, provisions for these benefits are recognised at fair value. Volatility and non-performance risk is considered as per GMWB above.</p>
<b>Life insurance</b>	<p>Life products include term life, traditional life and interest-sensitive life (universal life and variable universal life). Life insurance products accounted for 9 per cent (2016: 10 per cent) of Jackson's policy and contract liabilities at 31 December 2017. Jackson discontinued new sales of life insurance products in 2012.</p> <p>Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured.</p> <p>Traditional life provides protection for either a defined period or until a stated age and includes a predetermined cash value.</p>	<p>Excluding the business that is subject to the retrocession treaties at 31 December 2017, Jackson had interest-sensitive life business in force with total account value of £6.3 billion (2016: £7.1 billion), with minimum guaranteed interest rates ranging from 2.5 per cent to 6.0 per cent with a 4.67 per cent average guaranteed rate (2016: 2.5 per cent to 6.0 per cent with a 4.66 per cent average guaranteed rate).</p>	<p>For term and traditional life insurance contracts, provisions for future policy benefits are determined under US GAAP using the net level premium method and assumptions as of the issue date as to mortality, interest, policy lapses and expenses plus provisions for adverse deviation for directly sold business and assumptions at purchase for acquired business.</p> <p>For universal life and variable universal life a retrospective deposit method is used to determine the liability for policyholder benefits. This is then augmented by additional liabilities to account for no-lapse guarantees, profits followed by losses, contract features such as persistency bonuses, and cost of interest rate guarantees.</p>



**(b) US** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Life insurance</b> continued	<p>Universal life provides permanent individual life insurance for the life of the insured and includes a savings element.</p> <p>Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the policyholder account to be invested in separate account funds. For certain fixed universal life plans, additional provisions are held to reflect the existence of guarantees offered in the past that are no longer supported by earnings on the existing asset portfolio, or for situations where future mortality charges are not expected to be sufficient to provide for future mortality costs.</p>		
<b>Institutional products</b>	<p>Institutional products are: guaranteed investment contracts (GICs), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank programme) and Medium Term Note funding agreements. At 31 December 2017 institutional products accounted for 1 per cent of contract liabilities (2016: 1 per cent).</p>	<p>GICs feature a lump sum policyholder deposit on which interest is paid at a rate fixed at inception. Market value adjustments are made to the value of any early withdrawals.</p> <p>Funding agreements feature either lump sum or periodic policyholder deposits. Interest is paid at a fixed or index-linked rate. Funding agreements have a duration of between one and 30 years. In 2017 and 2016 there were no funding agreements terminable by the policyholder with less than 90 days notice.</p>	<p>Institutional products are classified as investment contracts, and are accounted for as financial liabilities. The currency risk on contracts that represent currency obligations other than US dollars are hedged using cross-currency swaps.</p>

**C4 Policyholder liabilities and unallocated surplus** continued

**C4.2 Products and determining contract liabilities** continued

**(c) UK and Europe**

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>With-profits contracts in WPSF</b>	<p>With-profits contracts provide returns to policyholders through bonuses that are 'smoothed'. There are two types of bonuses: 'regular' and 'final'.</p> <p>Regular bonus rates are determined for each type of policy primarily by targeting the bonus level at a prudent proportion of the long-term expected future investment return on underlying assets, reduced as appropriate for each type of policy to allow for items such as expenses, charges, tax and shareholders' transfers.</p> <p>In normal investment conditions, PAC expects changes in regular bonus rates to be gradual over time. However, PAC retains the discretion whether or not to declare a regular bonus each year, and there is no limit on the amount by which regular bonus rates can change.</p> <p>A final bonus which is normally declared annually, may be added when a claim is paid or when units of a unitised product are realised.</p> <p>The rates of final bonus usually vary by type of policy and by reference to the period, usually a year, in which the policy commences or each premium is paid. These rates are determined by reference to the asset shares for the sample policies but subject to the smoothing approach as explained below.</p>	<p>Regular bonuses are typically declared once a year, and once credited, are guaranteed in accordance with the terms of the particular product. Final bonuses rates are guaranteed only until the next bonus declaration.</p>	<p>The policyholder liabilities reported for the WPSF are primarily for two broad types of business. These are accumulating and conventional with-profits contracts. The policyholder liabilities of the WPSF are accounted for in accordance with the requirements of FRS 27.</p> <p>For with-profits business a market consistent valuation is performed. Additional assumptions required are for persistency and the management actions under which the fund is managed. Assumptions used for a market-consistent valuation typically do not contain margins, whereas those used for the valuation of other classes of business do.</p> <p>The provisions have been determined on a basis consistent with the detailed methodology included in regulations contained in the PRA's previously issued rules for the determination of reserves on the PRA's 'realistic' Peak 2 basis. Though no longer in force for regulatory purposes, these rules continue to be applied to determine with-profits contract liabilities in accordance with IFRS 4. In aggregate, the regime has the effect of placing a value on the liabilities of UK with-profits contracts, which reflects the amounts expected to be paid based on the current value of investments held by the with-profits funds and current circumstances. These contracts are a combination of insurance and investment contracts with discretionary participation features, as defined by IFRS 4.</p> <p>The PRA's Peak 2 calculation under the realistic regime requirement is explained further in note A3.1 under the UK regulated with-profits section.</p> <p>Persistency assumptions are set based on the results of the most recent experience analysis looking at the experience over recent years of the relevant business.</p> <p>Maintenance and, for some classes of business, termination expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.</p> <p>The contract liabilities for with-profits business also require assumptions for mortality. These are set based on the results of recent experience analysis.</p>

**(c) UK and Europe** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>PruFund contracts</b>	<p>A range of with-profits contracts offering policyholders a choice of investment profiles.</p> <p>Unlike traditional with-profits contracts no regular or final bonuses are declared. Policyholder return is determined by an Expected Growth Rate (EGR) which is declared quarterly. A different EGR is applied for each of the different PruFund funds within the range, each relating to the individual asset mix of that fund. The relevant EGR is applied to increase the unit value of policyholder funds, calculated daily.</p> <p>In normal investment conditions the EGR is expected to reflect PAC's view of how the funds will perform over the longer term. An adjustment is made to the smoothed unit value if it moves outside of a specified range relative to the value of the underlying assets.</p>		As with-profits contracts, the liability for PruFund contracts are calculated in accordance with the methodology applied to other WPSF contracts, as described above.
<b>SAIF with-profits</b>	<p>SAIF is a ring-fenced with-profits sub-fund of PAC. No new business is written in SAIF, although regular premiums are still being paid on in-force policies. 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. The process for determining policyholder bonuses of SAIF with-profits policies, is similar to that for the with-profits policies of the WPSF. However, in addition, the surplus assets in SAIF are allocated to policies in an orderly and equitable distribution over time as enhancements to policyholder benefits.</p>	<p>Provision is made for the risks attaching to some SAIF unitised with-profits policies that have (Market Value Reduction) MVR-free dates and for those SAIF products which have a guaranteed minimum benefit on death or maturity of premiums accumulated at 4 per cent per annum.</p> <p>The Group's main exposure to guaranteed annuities in the UK is through SAIF and a provision of £503 million was held in SAIF at 31 December 2017 (2016: £571 million) to honour the guarantees. As SAIF is a separate sub-fund solely for the benefit of policyholders of SAIF, this provision has no impact on the financial position of the Group's shareholders' equity.</p>	The process of determining policyholder liabilities of SAIF is similar to that for the with-profits policies of the WPSF.

**C4 Policyholder liabilities and unallocated surplus** continued

**C4.2 Products and determining contract liabilities** continued

**(c) UK and Europe** continued

<b>Contract type</b>	<b>Description</b>	<b>Material features</b>	<b>Determination of liabilities</b>
<b>Annuities – level, fixed increase and inflation-linked annuities</b>	<b>Level</b> Provide a fixed annuity payment over the policyholder's life.		Annuity liabilities are calculated as the expected future value of future annuity payments and expenses discounted by a valuation interest rate.
	<b>Fixed increase</b> Provide for a regular annuity payment which incorporates automatic increases in annuity payments by fixed amounts over the policyholder's life.		Key assumptions include:  <b>Mortality</b> The mortality assumptions are set in light of recent population and internal experience. The assumptions used are adjusted percentages of standard actuarial mortality tables with an allowance for future mortality improvements, the effect of anti-selection and characteristics specific to each individual policyholder.
	<b>Inflation-linked</b> Provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK RPI.		Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made.
	<b>With-profits</b> Written in the with-profits fund, these combine the income features of annuity products with the investment smoothing features of with-profits products and enable policyholders to obtain exposure to investment return on the with-profits fund equity shares, property and other investment categories over time.	As per with-profits products.	New mortality projection models are released annually by the Continuous Mortality Investigation (CMI). The CMI 2015 model was used to produce the 2017 results calibrated to reflect an appropriate view of future mortality improvements.  For annuities in payment, the mortality tables used are set out in C4.1(d)(iii).
			<b>Expense</b> Maintenance expense assumptions are expressed as per policy amounts. They are set based on the expenses incurred during the year, including an allowance for ongoing investment expenditure and allocated between entities and product groups in accordance with the operation's internal cost allocation model. A margin for adverse deviation is added to this amount. Expense inflation assumptions are set consistent with the economic basis and based on the inflation swap spot curve.

**(c) UK and Europe** continued

<i>Contract type</i>	<i>Description</i>	<i>Material features</i>	<i>Determination of liabilities</i>
<b>Annuities</b> – level, fixed increase and inflation- linked annuities continued			<p><b>Valuation interest rates</b> Valuation interest rates used to discount the liabilities are based on the yields as at the valuation date on the assets backing the technical provisions. For fixed interest securities the internal rate of return of the assets backing the liabilities is used. Properties are valued using the lower of the rental yield and the redemption yield, and for equities it is the greater of the dividend yield and the average of the dividend yield and the earnings yield. An adjustment is made to the yield on non-risk-free fixed interest securities and property to reflect credit risk.</p> <p><b>Credit risk</b> For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk on fixed interest securities. Further details on credit risk allowance are provided in note B3(c).</p>
<b>Unit-linked</b>	UK and Europe insurance operations also have a book of unit-linked policies.	There are no guaranteed maturity values or guaranteed annuity options on unit-linked policies except for minor amounts for certain policies linked to cash units within SAIF.	<p>For unit-linked contracts the attaching liability reflects the unit value obligation and, in the case of policies classified as insurance contracts, provision for expenses and mortality risk. The latter component is determined by applying mortality assumptions on a basis that is appropriate for the policyholder profile.</p> <p>For those contracts where the level of insurance risk is insignificant, the assets and liabilities arising under the contracts are distinguished between those that relate to the financial instrument liability and acquisition costs and deferred income that relate to the component of the contract that relates to investment management. Acquisition costs and deferred income are recognised consistent with the level of service provision in line with the requirements of IAS 18.</p> <p>To calculate the non-unit reserves for linked business, assumptions have been set for the gross unit growth rate and the rate of inflation of maintenance expenses, as well as for the valuation interest rate.</p>

## C4 Policyholder liabilities and unallocated surplus continued

### C4.2 Products and determining contract liabilities continued

#### Operation of the UK with-profits sub-funds

The WPSF mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The WPSF's profits, apportioned 90 per cent to its policyholders and 10 per cent to shareholders as surplus for distribution, are determined via the annual actuarial valuation.

#### Application of significant judgement

Determining bonuses using the table described in the material features table above requires the PAC Board to apply significant judgement in many respects, including in particular the following:

- Determining what constitutes fair treatment of customers;
- Smoothing of investment returns; and
- Determining at what level to set bonuses to ensure that they are competitive.

#### Key assumptions

The overall rate of return on investments and the expectation of future investment returns are the most important influences in bonus rates, subject to the smoothing described below. Prudential determines the assumptions to apply in respect of these factors, including the effects of reasonably likely changes in key assumptions, in the context of the overarching discretionary and smoothing framework that applies to its with-profits business. As such, it is not possible to specifically quantify the effects of each of these assumptions, or of reasonably likely changes in these assumptions.

Prudential's approach, in applying significant judgement and discretion in relation to determining bonus rates, is consistent conceptually with the approach adopted by other firms that manage a with-profits business and is also consistent with the requirements of the Principles and Practices of Financial Management (PPFM) that are applied in the management of their with-profits funds.

In accordance with industry-wide regulatory requirements, the PAC Board has appointed:

- A Chief Actuary who provides the PAC Board with all actuarial advice;
- A With-Profits Actuary whose specific duty is to advise the PAC Board on the reasonableness and proportionality of the manner in which its discretion has been exercised in applying the Principles and Practices of Financial Management and the manner in which any conflicting interests have been addressed; and
- A With-Profits Committee of independent individuals, which assesses the degree of compliance with the PPFM and the manner in which conflicting rights have been addressed.

#### Determination of bonus rates

In determining bonus rates for the UK with-profits policies, smoothing is applied to the allocation of the overall earnings of the UK with-profits fund of which the investment return is a significant element.

The degree of smoothing is illustrated numerically by comparing in the following table the relatively 'smoothed' level of policyholder bonuses declared as part of the surplus for distribution, with the more volatile movement in investment return and other items of income and expenditure of the UK component of the PAC with-profits fund for each year presented.

	2017 £m	2016 £m
Net income of the fund:		
Investment return	9,985	13,185
Claims incurred	(8,449)	(7,410)
Movement in policyholder liabilities	(10,011)	(11,824)
Add back policyholder bonuses for the year (as shown below)	2,071	1,934
Claims incurred and movement in policyholder liabilities (including charge for provision for asset shares and excluding policyholder bonuses)	(16,389)	(17,300)
Earned premiums, net of reinsurance	12,508	9,261
Other income	35	177
Acquisition costs and other expenditure	(1,732)	(1,288)
Share of profits from investment joint ventures	106	22
Tax charge	(440)	(739)
Net income of the fund before movement in unallocated surplus	4,073	3,318
Movement in unallocated surplus	(1,769)	(1,169)
Surplus for distribution	2,304	2,149
Surplus for distribution allocated as follows:		
– 90% policyholders' bonus (as shown above)	2,071	1,934
– 10% shareholders' transfers	233	215
	2,304	2,149

## C5 Intangible assets

### C5(a) Goodwill

	Attributable to:		2017 £m	2016 £m
	Shareholders	With-profits		
<b>Cost</b>				
At beginning of year	1,475	153	1,628	1,648
Disposals/reclassifications to held for sale	(16)	(139)	(155)	(56)
Additional consideration paid on previously acquired business	–	9	9	7
Exchange differences	(1)	1	–	29
<b>Net book amount at end of year</b>	<b>1,458</b>	<b>24</b>	<b>1,482</b>	<b>1,628</b>

Goodwill comprises:

	2017 £m	2016 £m
M&G	1,153	1,153
Other – attributable to shareholders	305	322
Goodwill – attributable to shareholders	1,458	1,475
Venture fund investments – attributable to with-profits funds	24	153
	1,482	1,628

Other goodwill attributable to shareholders represents amounts allocated to entities in Asia and, until August 2017, the US operations. These goodwill amounts are not individually material.

### Impairment testing

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash-generating units for the purposes of impairment testing. These cash-generating units are based upon how management monitors the business and represent the lowest level to which goodwill can be allocated on a reasonable basis.

### Assessment of whether goodwill may be impaired

Goodwill is tested for impairment by comparing the cash-generating units' carrying amount, including any goodwill, with its recoverable amount.

With the exception of M&G, the goodwill attributable to shareholders mainly relates to acquired life businesses. The Company routinely compares the aggregate of net asset value and acquired goodwill on an IFRS basis of acquired life business with the value of the current in-force business as determined using the EEV methodology. Any excess of IFRS over EEV carrying value is then compared with EEV basis value of current and projected future new business to determine whether there is any indication that the goodwill in the IFRS statement of financial position may be impaired. The methodology and assumptions underpinning the Group's EEV basis of reporting are included in the EEV basis supplementary information in this Annual Report.

Goodwill for venture fund investments is tested for impairment by comparing the business's carrying value, including goodwill to its recoverable amount (fair value less costs to sell).

### M&G

The recoverable amount for the M&G business (which is now part of the UK and Europe operating segment) has been determined by calculating the value in use of M&G Group Limited and its subsidiaries (considered to be a cash-generating unit during 2017). This has been calculated by aggregating the present value of future cash flows expected to be derived from the M&G business.

The discounted cash flow valuation has been based on a three-year plan prepared by M&G, and approved by management, and cash flow projections for later years.

The value in use is particularly sensitive to a number of key assumptions as follows:

- i The set of economic, market and business assumptions used to derive the three-year plan. The direct and secondary effects of recent developments, such as changes in global equity markets and trends in fund flows, are considered by management in arriving at the expectations for the final projections for the plan;
- ii The assumed growth rate on forecast cash flows beyond the terminal year of the plan after considering expected future and past growth rates. A growth rate of 1.7 per cent (2016: 2.0 per cent) has been used to extrapolate beyond the plan period;
- iii The risk discount rate. Differing discount rates have been applied in accordance with the nature of the individual component businesses. For the most material component retail and institutional business, a risk discount rate of 12 per cent (2016: 12 per cent) has been applied to post-tax cash flows. The pre-tax risk discount rate was 15 per cent (2016: 16 per cent); and
- iv That asset management contracts continue on similar terms. Management believes that any reasonable change in the key assumptions would not cause the recoverable amount of M&G to fall below its carrying amount.

## C Balance sheet notes continued

### C5 Intangible assets continued

#### C5(b) Deferred acquisition costs and other intangible assets

	2017 £m	2016 £m
Deferred acquisition costs and other intangible assets attributable to shareholder	10,866	10,755
Deferred acquisition costs and other intangible assets attributable to with-profits funds	145	52
Total of deferred acquisition costs and other intangible assets	11,011	10,807

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2017 £m	2016 £m
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	9,170	9,114
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	63	64
	9,233	9,178
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	36	43
Distribution rights and other intangibles	1,597	1,534
	1,633	1,577
Total of deferred acquisition costs and other intangible assets	10,866	10,755

	2017 £m					2016 £m	
	Deferred acquisition costs					Total	Total
	Asia insurance	US insurance	UK and Europe insurance	All asset management	PVIF and other intangibles*		
<b>Balance at 1 January</b>	788	8,303	79	8	1,577	10,755	8,422
Additions	331	663	14	3	229	1,240	1,179
Amortisation to the income statement:†							
Operating profit	(133)	(403)	(10)	(5)	(158)	(709)	(686)
Non-operating profit	–	462	–	–	(7)	455	557
	(133)	59	(10)	(5)	(165)	(254)	(129)
Disposals and transfers	–	–	–	–	–	–	(268)
Exchange differences and other movements	(40)	(752)	1	–	(8)	(799)	1,475
Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income†	–	(76)	–	–	–	(76)	76
<b>Balance at 31 December</b>	<b>946</b>	<b>8,197</b>	<b>84</b>	<b>6</b>	<b>1,633</b>	<b>10,866</b>	<b>10,755</b>

\* PVIF and other intangibles includes amounts in relation to software rights with additions of £38 million, amortisation of £32 million, foreign exchange losses of £5 million and a balance at 31 December 2017 of £67 million.

† Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation'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 the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.4 per cent (2016: 7.4 per cent) (gross of asset management fees and other charges to policyholders, but net of external fund management fees). The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items (see note C7.3 (iv)).

#### Note

PVIF and other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time.



### US insurance operations

The DAC amount in respect of US insurance operations comprises amounts in respect of:

	2017 £m	2016 £m
Variable annuity business	8,208	7,844
Other business	278	696
Cumulative shadow DAC (for unrealised gains booked in other comprehensive income)*	(289)	(237)
<b>Total DAC for US operations</b>	<b>8,197</b>	<b>8,303</b>

\* Consequent upon the positive unrealised valuation movement in 2017 of £617 million (2016: negative unrealised valuation movement of £28 million), there is a loss of £76 million (2016: a gain of £76 million) for altered shadow DAC amortisation booked within other comprehensive income. These adjustments reflect movement from period to period, in the changes to the pattern of reported gross profits that would have occurred if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2017, the cumulative shadow DAC balance as shown in the table above was negative £289 million (2016: negative £237 million).

### Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

- (i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
- (ii) An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In 2017, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £86 million (2016: credit for decelerated amortisation of £93 million). The 2017 amount primarily reflects the impact of the positive separate account performance, which is higher than the assumed level for the year.

The application of the mean reversion formula, (described in note A3.1) has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. In 2018, it would take approximate movements in separate account values of more than either negative 32 per cent or positive 37 per cent for the mean reversion assumption to move outside the corridor.

### Deferred acquisition costs and other intangible assets attributable to with-profits funds

Other intangible assets in the Group consolidated statement of financial position attributable to with-profits funds consist of:

	2017 £m	2016 £m
Deferred acquisition costs related to insurance contracts attributable to the PAC with-profits fund	–	2
Computer software and other intangibles attributable to with-profits funds	145	50
	<b>145</b>	<b>52</b>

## C Balance sheet notes continued

### C5 Intangible assets continued

#### (i) Deferred acquisition costs related to insurance and investment contracts

The movements in deferred acquisition costs relating to insurance and investment contracts are as follows:

	2017 £m		2016 £m	
	Insurance contracts	Investment management note	Insurance contracts	Investment management note
<b>DAC at 1 January</b>	9,114	64	6,948	74
Additions	1,000	11	954	3
Amortisation	(77)	(12)	(21)	(13)
Exchange differences	(791)	–	1,408	–
Disposals and transfers	–	–	(251)	–
Change in shadow DAC related to movement in unrealised appreciation of Jackson's securities classified as available-for-sale	(76)	–	76	–
<b>DAC at 31 December</b>	<b>9,170</b>	<b>63</b>	<b>9,114</b>	<b>64</b>

#### Note

All of the additions are through internal development. The carrying amount of the balance comprises the following gross and accumulated amortisation amounts:

	2017 £m	2016 £m
Gross amount	156	145
Accumulated amortisation	(93)	(81)
Net book amount	63	64

#### (ii) Present value of acquired in-force (PVIF) and other intangibles attributable to shareholders

	2017 £m				2016 £m			
	Other intangibles			Total	Other intangibles			Total
	PVIF note (i)	Distribution rights note (ii)	Other intangibles (including software) note (iii)		PVIF note (i)	Distribution rights note (ii)	Other intangibles (including software) note (iii)	
<b>At 1 January</b>								
Cost	226	1,628	321	2,175	209	1,387	278	1,874
Accumulated amortisation	(183)	(196)	(219)	(598)	(164)	(129)	(181)	(474)
	43	1,432	102	1,577	45	1,258	97	1,400
Additions	–	173	56	229	–	172	50	222
Amortisation charge	(7)	(121)	(37)	(165)	(8)	(52)	(35)	(95)
Disposals and transfers	–	–	–	–	–	(3)	(14)	(17)
Exchange differences and other movements	–	(3)	(5)	(8)	6	57	4	67
<b>At 31 December</b>	<b>36</b>	<b>1,481</b>	<b>116</b>	<b>1,633</b>	<b>43</b>	<b>1,432</b>	<b>102</b>	<b>1,577</b>
Comprising:								
Cost	227	1,793	363	2,383	226	1,628	321	2,175
Accumulated amortisation	(191)	(312)	(247)	(750)	(183)	(196)	(219)	(598)
	36	1,481	116	1,633	43	1,432	102	1,577

#### Notes

- (i) All of the PVIF balances relate to insurance contracts. The PVIF attaching to investment contracts have been fully amortised. Amortisation is charged over the period of provision of asset management services as those profits emerge.
- (ii) Distribution rights relate to fees paid in relation to the bancassurance partnership arrangements for the bank distribution of Prudential's insurance products for a fixed period of time. The distribution rights amounts are amortised over the term of the distribution contracts.
- (iii) Software is amortised over its useful economic life, which generally represents the licence period of the software acquired.

## C6 Borrowings

### C6.1 Core structural borrowings of shareholder-financed operations

	2017 £m	2016 £m
Holding company operations: <sup>note (i)</sup>		
US\$1,000m 6.5% Notes (Tier 2) <sup>note (v)</sup>	–	809
US\$250m 6.75% Notes (Tier 1) <sup>note (vi)</sup>	185	202
US\$300m 6.5% Notes (Tier 1) <sup>note (vi)</sup>	222	243
US\$700m 5.25% Notes (Tier 2)	517	565
US\$550m 7.75% Notes (Tier 1) <sup>note (vi)</sup>	407	445
US\$1,000m 5.25% Notes (Tier 2)	731	800
US\$725m 4.375% Notes (Tier 2)	530	580
US\$750m 4.875% Notes (Tier 2) <sup>note (iv)</sup>	548	–
Perpetual Subordinated Capital Securities	3,140	3,644
€20m Medium Term Notes 2023 (Tier 2) <sup>note (vii)</sup>	18	17
£435m 6.125% Notes 2031 (Tier 2)	430	430
£400m 11.375% Notes 2039 (Tier 2)	397	395
£600m 5% Notes 2055 (Tier 2)	591	590
£700m 5.7% Notes 2063 (Tier 2)	696	696
Subordinated Notes	2,132	2,128
Subordinated debt total	5,272	5,772
Senior debt: <sup>note (ii)</sup>		
£300m 6.875% Bonds 2023	300	300
£250m 5.875% Bonds 2029	249	249
<b>Holding company total</b>	<b>5,821</b>	<b>6,321</b>
Prudential Capital bank loan <sup>note (iii)</sup>	275	275
Jackson US\$250m 8.15% Surplus Notes 2027 <sup>note (viii)</sup>	184	202
<b>Total (per consolidated statement of financial position)</b>	<b>6,280</b>	<b>6,798</b>

#### Notes

- (i) These debt tier classifications are consistent with the treatment of capital for regulatory purposes under the Solvency II regime. The Group has designated all US\$4,275 million (2016: US\$4,525 million) of its US dollar denominated subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.
- (ii) The senior debt ranks above subordinated debt in the event of liquidation.
- (iii) The Prudential Capital bank loan of £275 million is drawn at a cost of 12 month GBP LIBOR plus 0.33 per cent. The loan was renewed in December 2017 maturing on 20 December 2022 with an option to repay annually.
- (iv) In October 2017, the Company issued core structural borrowings of US\$750 million 4.875 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £565 million.
- (v) In December 2017, the Company repaid its US\$1,000 million 6.5 per cent Tier 2 perpetual subordinated notes.
- (vi) These borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date, into one or more series of Prudential preference shares.
- (vii) The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three-month GBP LIBOR plus 1.2 per cent.
- (viii) Jackson's borrowings are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of Jackson.

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

The financial strength of The Prudential Assurance Company Limited is rated AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's, AA by Fitch and A+ by AM Best.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA by Standard & Poor's. All ratings on Prudential and its subsidiaries have been reaffirmed on stable outlook. All ratings stated as at 13 March 2018.

## C Balance sheet notes continued

### C6 Borrowings continued

#### C6.2 Other borrowings

##### (a) Operational borrowings attributable to shareholder-financed operations

	2017 £m	2016 £m
Commercial Paper	485	1,052
Medium Term Notes 2018	600	599
Borrowings in respect of short-term fixed income securities programmes	1,085	1,651
Bank loans and overdrafts	70	19
Obligations under finance leases	5	5
Other borrowings	631	642
Other borrowings <sup>note</sup>	706	666
<b>Total</b>	<b>1,791</b>	<b>2,317</b>

#### Note

Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson. In addition, other borrowings include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

##### (b) Borrowings attributable to with-profits operations

	2017 £m	2016 £m
Non-recourse borrowings of consolidated investment funds*	3,570	1,189
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc†	100	100
Other borrowings (predominantly obligations under finance leases)	46	60
<b>Total</b>	<b>3,716</b>	<b>1,349</b>

\* In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds. The increase since 31 December 2016 primarily relates to the debt instruments issued by new consolidated securitisation entities backed by a portfolio of mortgage loans (see note C3.3(c) for further details).

† The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

#### C6.3 Maturity analysis

The following table sets out the remaining contractual maturity analysis of the Group's borrowings as recognised in the statement of financial position:

	Shareholder-financed operations				With-profits operations	
	Core structural borrowings		Operational borrowings		Borrowings	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Less than 1 year	275	275	1,723	1,636	351	118
1 to 2 years	–	–	1	599	371	48
2 to 3 years	–	–	1	–	184	108
3 to 4 years	–	–	–	1	59	8
4 to 5 years	–	–	–	1	1	146
Over 5 years	6,005	6,523	66	80	2,750	921
<b>Total</b>	<b>6,280</b>	<b>6,798</b>	<b>1,791</b>	<b>2,317</b>	<b>3,716</b>	<b>1,349</b>

## C7 Risk and sensitivity analysis

### C7.1 Group overview

The Group's risk framework and the management of the risk, including those attached to the Group's financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital have been included in the audited sections of the 'Report on the risks facing our business and how these are managed'.

The financial and insurance assets and liabilities on the Group's balance sheet are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks, including how they affect Group's operations and how these are managed are discussed in the Risk report referred to above.

The most significant items that the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business are sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

Type of business	Market and credit risk		Insurance and lapse risk
	Investments/derivatives	Liabilities/unallocated surplus	
<b>Asia insurance operations (see also section C7.2)</b>			
All business	Currency risk		Mortality and morbidity risk Persistency risk
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees
Non-participating business	Asset/liability mismatch risk		
	Credit risk	Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements	
	Interest rate and price risk		
<b>US insurance operations (see also section C7.3)</b>			
All business	Currency risk		Persistency risk
Variable annuity business	Net effect of market risk arising from incidence of guarantee features and variability of asset management fees offset by derivative hedging programme		Risk that utilisation of withdrawal benefits or lapse levels differ from those assumed in pricing
Fixed index annuity business	Derivative hedge programme to the extent not fully hedged against liability	Incidence of equity participation features	
Fixed index annuities, Fixed annuities and GIC business	Credit risk Interest rate risk Profit and loss and shareholders' equity are volatile for these risks as they affect the values of derivatives and embedded derivatives and impairment losses. In addition, shareholders' equity is volatile for the incidence of these risks on unrealised appreciation of fixed income securities classified as available-for-sale under IAS 39	Spread difference between earned rate and rate credited to policyholders	Lapse risk, but the effects of extreme events may be mitigated by the application of market value adjustments

## C Balance sheet notes continued

### C7 Risk and sensitivity analysis continued

#### C7.1 Group overview continued

Type of business	Market and credit risk			Insurance and lapse risk
	Investments/derivatives	Liabilities/unallocated surplus	Other exposure	
<b>UK and Europe insurance operations (see also section C7.4)</b>				
With-profits business	Net neutral direct exposure (indirect exposure only)		Investment performance subject to smoothing through declared bonuses	Persistency risk to future shareholder transfers
SAIF sub-fund	Net neutral direct exposure (indirect exposure only)		Asset management fees earned	
Unit-linked business	Net neutral direct exposure (indirect exposure only)		Investment performance through asset management fees	Persistency risk
Asset/liability mismatch risk				
Shareholder-backed annuity business	Credit risk for assets covering liabilities and shareholder capital  Interest rate risk for assets in excess of liabilities ie assets representing shareholder capital			Mortality experience and assumptions for longevity

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3, C7.4 and C7.5. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the equity risk sensitivity analysis shown below, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time during which the Group would be able to put mitigating management actions in place. In addition, the equity risk sensitivity analysis provided assumed that all equity indices fall by the same percentage.

#### Impact of diversification on risk exposure

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. Relevant correlation factors include:

##### Correlation across geographic regions:

- Financial risk factors; and
- Non-financial risk factors.

##### Correlation across risk factors:

- Longevity risk;
- Expenses;
- Persistency; and
- Other risks.

The sensitivities below do not reflect that assets and liabilities are actively managed and may vary at the time any actual market movement occurs. There are strategies in place to minimise the exposure to market fluctuations. For example, as market indices fluctuate, Prudential would take certain actions including selling investments, changing investment portfolio allocation and adjusting bonuses credited to policyholders. In addition, these analyses do not consider the effect of market changes on new business generated in the future.

Other limitations on the sensitivities include: the use of hypothetical market movements to demonstrate potential risk that only represent Prudential's view of reasonably possible near-term market changes and that cannot be predicted with any certainty; the assumption that interest rates in all countries move identically; the assumption that all global currencies move in tandem with the US dollar against pound sterling; and the lack of consideration of the inter-relation of interest rates, equity markets and foreign currency exchange rates.

## C7.2 Asia insurance operations

### Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The Asia operations sell with-profits and unit-linked policies, and the investment portfolio of the with-profits funds contains a proportion of equities. Non-participating business is largely backed by debt securities or deposits. The Group's exposure to market risk arising from its Asia operations is therefore at modest levels. This reflects the fact that the Asia operations have a balanced portfolio of with-profits, unit-linked and other types of business.

In Asia, adverse persistency experience can impact the IFRS profitability of certain types of business written in the region. This risk is managed at a business unit level through regular monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection, as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features.

In summary, for Asia operations, the operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked persistency, and other insurance risks. At the total IFRS profit level the Asia result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

### i Sensitivity to risks other than foreign exchange risk

#### Interest rate risk

Excluding its with-profits and unit-linked businesses, the results of the Asia business are sensitive to the movements in interest rates.

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the territories. At 31 December 2017, 10-year government bond rates vary from territory to territory and range from 1.0 per cent to 7.5 per cent (2016: 1.2 per cent to 8.1 per cent).

For the sensitivity analysis as shown in the table below, the reasonably possible interest rate movement used is 1 per cent for all territories.

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2017 and 2016 is as follows:

	2017 £m		2016 £m	
	Decrease of 1%	Increase of 1%	Decrease of 1%	Increase of 1%
Profit before tax attributable to shareholders	2	(443)	213	(509)
Related deferred tax (where applicable)	(7)	20	(41)	62
Net effect on profit and shareholders' equity	(5)	(423)	172	(447)

The pre-tax impacts, if they arose, would mostly be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from period-to-period. For example for those countries, such as those applying US GAAP, the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements.

In addition, the degree of sensitivity of the results shown in the table above is dependent on the interest rate level at that point of time. The low interest rates in certain countries have had an adverse impact on the degree of sensitivity to a decrease in interest rates.

An additional factor to the direction of the sensitivity of the Asia operations as a whole is movement in the country mix.

#### Equity price risk

The non-linked shareholder-backed business has limited exposure to equity and property investment (31 December 2017: £1,764 million). Generally changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities.

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business (including those held by the Group's joint venture and associate businesses), which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2017 and 2016 is as follows:

	2017 £m		2016 £m	
	Decrease		Decrease	
	of 20%	of 10%	of 20%	of 10%
Profit before tax attributable to shareholders	(478)	(239)	(386)	(192)
Related deferred tax (where applicable)	7	4	4	2
Net effect on profit and shareholders' equity	(471)	(235)	(382)	(190)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

**C7 Risk and sensitivity analysis** continued

**C7.2 Asia insurance operations** continued

**Insurance risk**

Many of the business units in Asia are exposed to mortality/morbidity risk and provision is made within policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would be decreased by approximately £66 million (2016: £61 million). Mortality and morbidity have a symmetrical effect on the portfolio and any weakening of these assumptions would have a similar equal and opposite impact.

**ii Sensitivity to foreign exchange risk**

Consistent with the Group's accounting policies, the profits of the Asia insurance operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2017, the rates for the most significant operations are given in note A1.

A 10 per cent increase (strengthening of the pound sterling) or decrease (weakening of the pound sterling) in these rates would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill attributable to Asia insurance operations respectively as follows:

	A 10% increase in local currency to £ exchange rates		A 10% decrease in local currency to £ exchange rates	
	2017 £m	2016 £m	2017 £m	2016 £m
Profit before tax attributable to shareholders	(155)	(97)	189	118
Profit for the year	(135)	(77)	165	94
Shareholders' equity, excluding goodwill, attributable to Asia operations	(492)	(442)	601	540

**C7.3 US insurance operations**

**Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks**

Jackson's reported operating profit based on longer-term investment returns is sensitive to market conditions, both with respect to income earned on spread-based products and indirectly with respect to income earned on variable annuity asset management fees. Jackson's main exposures to market risk are to interest rate risk and equity risk.

Jackson is exposed primarily to the following risks:

<b>Risks</b>	<b>Risk of loss</b>
Equity risk	<ul style="list-style-type: none"> <li>— Related to the incidence of benefits related to guarantees issued in connection with its variable annuity contracts; and</li> <li>— Related to meeting contractual accumulation requirements in fixed index annuity contracts.</li> </ul>
Interest rate risk	<ul style="list-style-type: none"> <li>— Related to meeting guaranteed rates of accumulation on fixed annuity products following a sustained fall in interest rates;</li> <li>— Related to increases in the present value of projected benefits related to guarantees issued in connection with its variable annuity contracts following a sustained fall in interest rates especially if in conjunction with a fall in equity markets;</li> <li>— Related to the surrender value guarantee features attached to the Company's fixed annuity products and to policyholder withdrawals following a sharp and sustained increase in interest rates; and</li> <li>— The risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.</li> </ul>



Jackson's derivative programme is used to manage interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, equity volatility, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Movements in the carrying value of derivatives combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities, which is largely insensitive to current period market movements mean that the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

Jackson enters into financial derivative transactions, including those noted below to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows or quantity of, or a degree of exposure with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed index annuities, certain variable annuity guaranteed benefit features and reinsured Guaranteed Minimum Income Benefit variable annuity features are similar to derivatives. Jackson does not account for such items as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes are carried at fair value.

The principal types of derivatives used by Jackson and their purpose are as follows:

<b>Derivative</b>	<b>Purpose</b>
Interest rate swaps	These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used to hedge Jackson's exposure to movements in interest rates.
Swaption contracts	These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson both purchases and writes swaptions in order to hedge against significant movements in interest rates.
Treasury futures contracts	These derivatives are used to hedge Jackson's exposure to movements in interest rates.
Equity index futures contracts and equity index options	These derivatives (including various call and put options and options contingent on interest rates and currency exchange rates) are used to hedge Jackson's obligations associated with its issuance of certain VA guarantees. Some of these annuities and guarantees contain embedded options that are fair valued for financial reporting purposes.
Cross-currency swaps	Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.
Credit default swaps	These swaps represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives.

The estimated sensitivity of Jackson's profit and shareholders' equity to equity and interest rate risks provided below is net of the related changes in amortisation of DAC. The effect on the related changes in amortisation of DAC provided is based on the current 'grandfathered' US GAAP DAC basis but does not include any effect from an acceleration or deceleration of amortisation of DAC.

## C Balance sheet notes continued

### C7 Risk and sensitivity analysis continued

#### C7.3 US insurance operations continued

##### i Sensitivity to equity risk

At 31 December 2017 and 2016, Jackson had variable annuity contracts with guarantees, for which the net amount at risk (NAR) is defined as the amount of guaranteed benefit in excess of current account value, as follows:

	Minimum return	Account value £m	Net amount at risk £m	Weighted average attained age	Period until expected annuitisation
<b>31 December 2017</b>					
Return of net deposits plus a minimum return					
GMDB	0-6%	100,451	1,665	66.0 years	
GMWB – premium only	0%	2,133	20		
GMWB*	0-5%†	235	13		
GMAB – premium only	0%	38	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		9,099	96	66.5 years	
GMWB – highest anniversary only		2,447	51		
GMWB*		667	47		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	5,694	426	69.0 years	
GMIB‡	0-6%	1,484	436		0.4 years
GMWB*	0-8%†	93,227	4,393		
<b>31 December 2016</b>					
Return of net deposits plus a minimum return					
GMDB	0-6%	93,512	2,483	65.6 years	
GMWB – premium only	0%	2,217	39		
GMWB*	0-5%†	256	22		
GMAB – premium only	0%	44	–		
Highest specified anniversary account value minus withdrawals post-anniversary					
GMDB		8,798	346	66.0 years	
GMWB – highest anniversary only		2,479	125		
GMWB*		747	83		
Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary					
GMDB	0-6%	5,309	699	68.7 years	
GMIB‡	0-6%	1,595	595		0.5 years
GMWB*	0-8%†	85,402	9,293		

\* Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).

† Ranges shown based on simple interest. The upper limits of 5 per cent or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example  $1 + 10 \times 0.05$  is similar to 1.04 growing at a compound rate of 4 per cent for a further nine years.

‡ The GMIB guarantees are essentially fully reinsured.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

	2017 £m	2016 £m
Mutual fund type:		
Equity	80,843	73,430
Bond	13,976	15,044
Balanced	19,852	17,441
Money market	681	994
Total	115,352	106,909

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index annuity liabilities and guarantees included in certain variable annuity benefits as illustrated above. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling guaranteed benefit fees.

Due to the nature and the valuation under IFRS of the free-standing derivatives and the variable annuity guarantee features, this hedge, while highly effective on an economic basis, would not be completely mute in the financial reporting as the immediate impact of equity market movements reset the free-standing derivatives immediately while the hedged liabilities reset more slowly and fees are recognised prospectively in the period in which they are earned.

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

At 31 December 2017, the estimated sensitivity of Jackson's profit and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

	2017 £m				2016 £m			
	Decrease		Increase		Decrease		Increase	
	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%	of 20%	of 10%
Pre-tax profit, net of related changes in amortisation of DAC	1,107	336	619	262	1,061	488	370	59
Related deferred tax effects	(233)	(71)	(130)	(55)	(371)	(171)	(129)	(21)
Net sensitivity of profit after tax and shareholders' equity	874	265	489	207	690	317	241	38

#### Note

The table above has been prepared to exclude the impact of the instantaneous equity movements on the separate account fees. In addition, the sensitivity movements shown include those relating to the fixed index annuity and the reinsurance of GMIIB guarantees.

The above table provides sensitivity movements as at a point in time while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2017 and 2016.

## C Balance sheet notes continued

### C7 Risk and sensitivity analysis continued

#### C7.3 US insurance operations continued

##### ii Sensitivity to interest rate risk

Except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of fixed annuity liabilities of Jackson's products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for under US GAAP as embedded derivatives which are fair-valued and, therefore, will be sensitive to changes in interest rates.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease and increase in interest rates at 31 December 2017 and 2016 is as follows:

	2017 £m				2016 £m			
	Decrease		Increase		Decrease		Increase	
	of 2%	of 1%	of 1%	of 2%	of 2%	of 1%	of 1%	of 2%
Profit and loss:								
Pre-tax profit effect (net of related changes in amortisation of DAC)	(4,079)	(1,911)	1,373	2,533	(2,899)	(1,394)	1,065	2,004
Related effect on charge for deferred tax	857	401	(288)	(532)	1,015	488	(373)	(701)
Net profit effect	(3,222)	(1,510)	1,085	2,001	(1,884)	(906)	692	1,303
Other comprehensive income:								
Direct effect on carrying value of debt securities (net of related changes in amortisation of DAC)	3,063	1,700	(1,700)	(3,063)	3,364	1,883	(1,883)	(3,364)
Related effect on movement in deferred tax	(643)	(357)	357	643	(1,177)	(659)	659	1,177
Net effect	2,420	1,343	(1,343)	(2,420)	2,187	1,224	(1,224)	(2,187)
Total net effect on shareholders' equity	(802)	(167)	(258)	(419)	303	318	(532)	(884)

These sensitivities are shown only for interest rates in isolation and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to sensitivity to equity risk, the sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors.

##### iii Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2017, the average and closing rates were US\$1.29 (2016: US\$1.35) and US\$1.35 (2016: US\$1.24) to £1.00, respectively. A 10 per cent increase (weakening of the dollar) or decrease (strengthening of the dollar) in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

	A 10% increase in US\$:£ exchange rates		A 10% decrease in US\$:£ exchange rates	
	2017 £m	2016 £m	2017 £m	2016 £m
Profit before tax attributable to shareholders	(54)	(48)	66	59
Profit for the year	(20)	(54)	24	66
Shareholders' equity attributable to US insurance operations	(456)	(473)	557	578

#### iv Other sensitivities

The total profit of Jackson is sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.

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 interest-sensitive business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders. 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 actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual experience is measured by internally developed expense, mortality and persistency studies.

For variable annuity business, an assumption made is the expected long-term level of separate account returns, which for 2017 was 7.4 per cent (2016: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

- Through the projected expected gross profits that are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique which is described in more detail in note A3.1 above; and
- The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits.

Jackson is sensitive to mortality risk, lapse risk and other types of policyholder behaviour, such as the utilisation of its GMWB product features. Jackson's persistency assumptions reflect a combination of recent experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. These assumptions vary by relevant factors, such as product, policy duration, attained age and for variable annuity lapse assumptions, the extent to which guaranteed benefits are 'in the money' relative to policy account values. Changes in these assumptions, which are assessed on an annual basis after considering recent experience, could have a material impact on policyholder liabilities and therefore on profit before tax. See further information in note B1.2.

In addition, in the absence of hedging, equity and interest rate movements can both cause a loss directly or an increased future sensitivity to policyholder behaviour. Jackson has an extensive derivative programme that seeks to manage the exposure to such altered equity markets and interest rates.

### C7.4 UK and Europe insurance operations

#### Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The IFRS basis results of the UK and Europe insurance operations are most sensitive to the following factors:

- Asset/liability matching;
- Default rate experience;
- Mortality;
- Longevity assumptions; and
- The difference between the return on corporate bond and risk-free rate for shareholder-backed annuity business of The Prudential Assurance Company Limited.

Further details are described below.

The IFRS operating profit based on longer-term investment returns for UK and Europe insurance operations is sensitive to changes in longevity assumptions affecting the carrying value of liabilities to policyholders for UK shareholder-backed annuity business. At the total IFRS profit level, the result is particularly sensitive to temporary value movements on assets backing the capital of the shareholder-backed annuity business.

#### With-profits business

##### With-profits sub-fund business

The shareholder results of the UK with-profits business (including non-participating annuity business of the with-profits sub-fund) are only sensitive to market risk through the indirect effect of investment performance on declared policyholder bonuses.

The investment assets of PAC with-profits funds are subject to market risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit and equity.

The shareholder results of the UK with-profits fund are currently one-ninth of the cost of bonuses declared to with-profits policyholders. For certain unitised with-profits products, such as the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment performance is a key driver of bonuses declared, and hence the shareholder results. Due to the 'smoothed' basis of bonus declaration, the sensitivity to short-term investment performance is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

## C7 Risk and sensitivity analysis continued

### C7.4 UK and Europe insurance operations continued

#### Shareholder-backed annuity business

Profits from shareholder-backed annuity business are most sensitive to:

- The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts;
- Actual versus expected default rates on assets held;
- The difference between long-term rates of return on corporate bonds and risk-free rates;
- The variance between actual and expected mortality experience;
- The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities; and
- Changes in renewal expense levels.

In addition the level of profit is affected by change in the level of reinsurance cover.

A decrease in assumed mortality rates of 1 per cent would decrease pre-tax profit by approximately £66 million (2016: £67 million). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £198 million (2016: £200 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase pre-tax profit by £40 million (2016: £41 million). The effect on profit would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £143 million (2016: £144 million). See C4.1(d)(iii) for further details on mortality assumptions.

#### Unit-linked and other business

Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK and Europe insurance operations.

Due to the matching of policyholder liabilities to attaching asset value movements, the UK unit-linked business is not directly affected by market or credit risk. The liabilities of the other business are also broadly insensitive to market risk. Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders for management of assets, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and timing of death. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

#### Sensitivity to interest rate risk and other market risk

By virtue of the fund structure, product features and basis of accounting, the policyholder liabilities of the UK and Europe insurance operations are, except annuity business, not generally exposed to interest rate risk. At 31 December 2017 annuity liabilities accounted for 98 per cent (2016: 98 per cent) of UK shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure substantially ameliorated by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. Liabilities are measured differently under Solvency II reporting requirements than under IFRS resulting in an alteration to the assets used to measure the IFRS annuity liabilities. As a result, IFRS has a different sensitivity to interest rate and credit risk than under Solvency II.

The estimated sensitivity of the UK non-linked shareholder-backed business (principally annuities business) to a movement in interest rates is as follows:

	2017 £m				2016 £m			
	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%	A decrease of 2%	A decrease of 1%	An increase of 1%	An increase of 2%
Carrying value of debt securities and derivatives	13,497	5,805	(4,659)	(8,541)	12,353	5,508	(4,527)	(8,313)
Policyholder liabilities	(9,426)	(4,210)	3,443	6,295	(10,023)	(4,466)	3,636	6,635
Related deferred tax effects	(658)	(254)	190	348	(396)	(177)	151	285
Net sensitivity of profit after tax and shareholders' equity	3,413	1,341	(1,026)	(1,898)	1,934	865	(740)	(1,393)

In addition the shareholder-backed portfolio of UK non-linked insurance operations (covering policyholder liabilities and shareholders' equity) includes equity securities and investment properties. Excluding any offsetting effects on the measurement of policyholder liabilities, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax and shareholders' equity.

	2017 £m		2016 £m	
	A decrease of 20%	A decrease of 10%	A decrease of 20%	A decrease of 10%
Pre-tax profit	(332)	(166)	(326)	(163)
Related deferred tax effects	57	28	66	33
Net sensitivity of profit after tax and shareholders' equity	(275)	(138)	(260)	(130)

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements, and, therefore the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

## C7.5 Asset management and other operations

### a Asset management

#### i Sensitivities to foreign exchange risk

Consistent with the Group's accounting policies, the profits of Eastspring Investments and US asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the functional currencies of most significant operations are shown in note A1.

A 10 per cent increase in the relevant exchange rates (strengthening of the pound sterling) would have reduced reported profit before tax attributable to shareholders, and shareholders' equity excluding goodwill attributable to Eastspring Investments and US asset management operations, by £30 million and £53 million respectively (2016: £12 million and £47 million, respectively).

#### ii Sensitivities to other financial risks for asset management operations

The profits of asset management businesses are sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future periods. The Group's asset management operations do not hold significant investments in property or equities.

### b Other operations

The Group holds certain derivatives that are used to manage foreign currency movements and macroeconomic exposures. The fair value of these derivatives is sensitive to the combined effect of movements in exchange rates, interest rates and inflation rates. The possible permutations cover a wide range of scenarios. For indicative purposes, a reasonably possible range of fair value movements could be plus or minus £150 million.

Other operations are sensitive to credit risk on the bridging loan portfolio of the Prudential Capital operation. Total debt securities held at 31 December 2017 by Prudential Capital were £2,238 million (2016: £2,359 million). Debt securities held by Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholders' equity.

## C Balance sheet notes continued

### C8 Tax assets and liabilities

#### C8.1 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	2017 £m				At 31 Dec
	At 1 Jan	Movement in income statement	Movement through other comprehensive income and equity	Other movements including foreign currency movements	
<b>Deferred tax assets</b>					
Unrealised losses or gains on investments	23	(8)	–	(1)	14
Balances relating to investment and insurance contracts	1	–	–	–	1
Short-term temporary differences	4,196	(1,396)	(1)	(267)	2,532
Capital allowances	16	(2)	–	–	14
Unused tax losses	79	(12)	–	(1)	66
<b>Total</b>	<b>4,315</b>	<b>(1,418)</b>	<b>(1)</b>	<b>(269)</b>	<b>2,627</b>
<b>Deferred tax liabilities</b>					
Unrealised losses or gains on investments	(1,534)	(177)	(55)	18	(1,748)
Balances relating to investment and insurance contracts	(730)	(156)	–	14	(872)
Short-term temporary differences	(3,071)	870	(26)	186	(2,041)
Capital allowances	(35)	(3)	–	(16)	(54)
<b>Total</b>	<b>(5,370)</b>	<b>534</b>	<b>(81)</b>	<b>202</b>	<b>(4,715)</b>

Of the short-term temporary differences of £2,532 million relating to deferred tax assets, £1,799 million relating to the US insurance operations is expected to be recovered in line with the run off of the in-force book, and the remaining balances of the £733 million are expected to be recovered within 10 years.

The reduction in the US corporate income tax rate to 21 per cent from 1 January 2018 was substantively enacted on 22 December 2017. The remeasurement to 21 per cent reduced deferred tax assets subject to US taxation by £1,587 million and deferred tax liabilities by £1,368 million. The £219 million net reduction was reflected partly in the income statement (£445 million charge attributable to shareholders and £92 million benefit to policyholders) and partly through reserves in other comprehensive income (£134 million benefit).

The deferred tax balances at 31 December 2017 and 2016 arise in the following parts of the Group:

	Deferred tax assets		Deferred tax liabilities	
	2017 £m	2016* £m	2017 £m	2016* £m
Asia operations	112	107	(1,152)	(935)
US operations	2,300	3,979	(1,845)	(2,832)
UK and Europe	157	174	(1,703)	(1,592)
Other operations	58	55	(15)	(11)
<b>Total</b>	<b>2,627</b>	<b>4,315</b>	<b>(4,715)</b>	<b>(5,370)</b>

\* The 2016 comparative results have been re-presented from those previously published for the reassessment of the Group's operating segments as described in note B1.3.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. For the 2017 full year results and financial position at 31 December 2017 the following tax benefits have not been recognised:

	2017		2016	
	Tax benefit £m	Losses £bn	Tax benefit £m	Losses £bn
Capital losses	79	0.4	89	0.4
Trading losses	74	0.3	41	0.2

Of the unrecognised trading losses, losses of £41 million will expire within the next seven years, the rest have no expiry date.



## C8.2 Current tax

Of the £613 million (2016: £440 million) current tax recoverable, the majority is expected to be recovered in one year or less. The current tax recoverable includes £112 million in relation to the ongoing litigation relating to the historic tax treatment of dividends received from overseas portfolio investments of life insurance companies. The Prudential Assurance Company Limited (PAC) is the test case for this litigation. In April 2016, the UK Court of Appeal found in PAC's favour on all substantive points in the litigation. HM Revenue & Customs' appeal against the Court of Appeal's judgment was heard by the Supreme Court in February 2018. A decision is expected later in 2018.

The current tax liability of £537 million (2016: £649 million) includes £139 million (2016: £89 million) of provisions for uncertain tax matters. Further detail is provided in note B4.

## C9 Defined benefit pension schemes

### (a) Background and summary economic and IAS 19 financial positions

The Group's businesses operate a number of pension schemes. The specific features of these schemes vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). PSPS accounts for 82 per cent (2016: 82 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

Under IAS 19 'Employee Benefits' and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', the Group is only able to recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to ongoing service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, the PSPS surplus recognised is restricted to the present value of the economic benefit to the Group from the difference between the estimated future ongoing contributions and the full future cost of service for the active members. In contrast, the Group is able to access the surplus of SASPS and M&GGPS. Therefore, the amounts recognised for these schemes are the IAS 19 valuation amount (either a surplus or deficit).

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2017 £m					2016 £m				
	PSPS note (i)	SASPS note (ii)	M&GGPS	Other schemes	Total	PSPS note (i)	SASPS note (ii)	M&GGPS	Other schemes	Total
Underlying economic surplus (deficit)	721	(137)	109	(1)	692	717	(237)	84	(1)	563
Less: unrecognised surplus	(485)	–	–	–	(485)	(558)	–	–	–	(558)
Economic surplus (deficit) (including investment in Prudential insurance policies) <sup>note (iii)</sup>	236	(137)	109	(1)	207	159	(237)	84	(1)	5
Attributable to:										
PAC with-profits fund	165	(55)	–	–	110	111	(95)	–	–	16
Shareholder-backed operations	71	(82)	109	(1)	97	48	(142)	84	(1)	(11)
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	–	–	(151)	–	(151)	–	–	(134)	–	(134)
IAS 19 pension asset (liability) on the Group statement of financial position <sup>note (iv)</sup>	236	(137)	(42)	(1)	56	159	(237)	(50)	(1)	(129)

#### Notes

- (i) No deficit or other funding is required for PSPS. Deficit funding, where applicable, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed considerations in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.
- (ii) The deficit of SASPS has been allocated 40 per cent to the PAC with-profits fund and 60 per cent to the shareholders' fund as at 31 December 2017 and 2016.
- (iii) The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes.
- (iv) At 31 December 2017, the PSPS pension asset of £236 million (2016: £159 million) and the other schemes' pension liabilities of £180 million (2016: £288 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

**C9 Defined benefit pension schemes** continued

**(a) Background and summary economic and IAS 19 financial positions** continued

**Triennial actuarial valuations**

Defined benefit pension schemes in the UK are generally required to be subject to full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high-quality corporate bonds while a more 'prudent' assumption is used for the actuarial valuation.

The information on the latest completed actuarial valuation for the UK schemes is shown in the table below:

	<i>PSPS</i>	<i>SASPS</i>	<i>M&amp;GGPS</i>
Last completed actuarial valuation date	5 April 2014*	31 March 2017	31 December 2014*
Valuation actuary, all Fellows of the Institute and Faculty of Actuaries	C G Singer Towers Watson Limited	Jonathan Seed Xafinity Consulting	Paul Belok AON Hewitt Limited
Funding level at the last valuation	107 per cent	75 per cent	99 per cent
Deficit funding arrangement agreed with the Trustees based on the last completed valuation	No deficit or other funding required. Ongoing contributions for active members are at the minimum level required under the scheme rules (approximately £6 million per annum excluding expenses)	Deficit funding of £26 million per annum from 1 April 2017 until 31 March 2027, or earlier if the scheme's funding level reaches 100 per cent before this date. The deficit funding will be reviewed every three years at subsequent valuations	No deficit funding required from 1 January 2016

\* The triennial valuations for PSPS and M&GGPS as at 5 April 2017 and 31 December 2017 respectively are currently in progress.

For PSPS, the market value of the scheme assets as at the 5 April 2014 valuation was £6,165 million. The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the purposes of the 2014 valuation were as follows.

	%
Rate of increase in salaries	Nil
Rate of inflation:	
Retail Prices Index (RPI)	3.5
Consumer Prices Index (CPI)	2.8
Rate of increase of pensions in payment for inflation:	
Guaranteed (maximum 5%)	2.8
Guaranteed (maximum 2.5%)	2.5
Discretionary	Nil
Expected returns on plan assets	3.3

**Mortality assumptions:**

The tables used for PSPS pensions in payment at 5 April 2014 were:

**Base post-retirement mortality**

For current male (female) pensioners 113 per cent (108 per cent) of the mortality rates of the 2000 series mortality tables (PNMA00/PNFA00), published by the Continuous Mortality Investigation Bureau (CMI).

For male (female) non-pensioners 107 per cent (92 per cent) of the 2000 series rates (PNMA00/PNFA00).

**Allowance for future improvements to post-retirement mortality**

For males (females) up to 2009 100 per cent (75 per cent) of Medium Cohort subject to a minimum rate of improvement of 2.00 per cent per annum (1.25 per cent per annum) up to age 90, decreasing linearly to zero by age 120. From 2010 onwards, in line with the CMI's 2009 projection model with a long-term rate of 1.75 per cent per annum (1.50 per cent per annum), and minor scheme-specific calibrations.

### Risks to which the defined benefit schemes expose the Group

Responsibility of making good of any deficit that may arise in the schemes lies with the employers of the schemes, which are subsidiaries of the Group. Accordingly, the pension schemes expose the Group to a number of risks and the most significant of which are interest rate and investment risk, inflation risk and mortality risk.

### Corporate governance

The Group's UK pension schemes are established under trust and are subject to UK legal requirements; this includes being subject to regulation by 'The Pension Regulator' in accordance with the Pension Act 1995. Each scheme has a corporate trustee to which some directors are appointed by Group employers with the remaining directors nominated by members in accordance with UK legal requirements. The trustees have the ultimate responsibility to ensure that the scheme is managed in accordance with the Trust Deed & Rules. The trustees act in the best interests of the schemes beneficiaries; this includes taking appropriate account of each employer's legal obligation and financial ability to support the schemes, when setting investment strategy and when agreeing funding with the employers. The employers' contribution commitments are formally updated at each triennial valuation; between valuations funding levels and employer strength continue to be monitored with the Trustees being able to bring forward the next triennial valuation if they consider it appropriate to do so.

All of the Group's three UK defined benefit pension schemes (PSPS, SASPS and M&GGPS) are final salary schemes, which are closed to new entrants.

The Trustees of each scheme set the general investment policy and specify any restrictions on types of investment and the degrees of divergence permitted from the benchmark, but delegate the responsibility for selection and realisation of specific investments to the Investment Managers. The Trustees consult the Principal Employer, (eg The Prudential Assurance Company for PSPS), on the investment principles, but the ultimate responsibility for the investment of the assets of the scheme lies with the Trustees.

The Trustees of each of the schemes manage the investment strategy of the scheme to achieve an acceptable balance between investing in the assets that most closely match the expected benefit payments and assets that are expected to achieve a greater return in the hope of reducing the contributions required or providing additional benefits to members.

For PSPS, a significant portion of the scheme assets are invested in liability matching assets such as bonds and gilts including index-linked gilts to partially hedge against inflation. In addition, PSPS has maintained a portfolio of interest rate and inflation swaps to match more closely the duration and inflation profile of its assets to its liabilities.

SASPS and M&GGPS use very limited or no derivatives to manage their risks. The risks arising from these schemes are managed through a diversified mix of investments. SASPS has invested in a mix of both return-seeking assets, such as equities and property and matching assets including a leveraged liability driven investment portfolio to reflect the liability profile of the scheme. A portion of the M&GGPS assets is invested in index-linked gilts and leveraged index-linked gilts as part of its asset liability management. The mix of the investments is kept under review by the Trustees of the respective schemes.

### (b) Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

	2017 %	2016 %
Discount rate*	2.5	2.6
Rate of increase in salaries	3.1	3.2
Rate of inflation†		
Retail prices index (RPI)	3.1	3.2
Consumer prices index (CPI)	2.1	2.2
Rate of increase of pensions in payment for inflation:		
PSPS:		
Guaranteed (maximum 5%)	2.5	2.5
Guaranteed (maximum 2.5%)	2.5	2.5
Discretionary	2.5	2.5
Other schemes	3.1	3.2

\* The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable to allow for the difference in duration between the index and the pension liabilities.

† The rate of inflation reflects the long-term assumption for UK RPI or CPI depending on the tranche of the schemes.

The calculations are based on current mortality estimates with an allowance made for future improvements in mortality. This allowance reflected the CMI's 2014 mortality improvements model, with scheme-specific calibrations. For immediate annuities in payment, in 2017 and 2016, a long-term mortality improvement rate of 1.75 per cent per annum and 1.25 per cent per annum was applied for males and females, respectively.

## C Balance sheet notes continued

### C9 Defined benefit pension schemes continued

#### (c) Estimated pension scheme surpluses and deficits

This section illustrates the financial position of the Group's defined benefit pension schemes on an economic basis and the IAS 19 basis.

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 31 December 2017, M&GGPS held investments in Prudential insurance policies of £151 million (2016: £134 million).

Movements on the pension scheme surplus determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

	2017 £m				
	Surplus (deficit) in schemes at 1 Jan 2017	(Charge) credit to income statement	Actuarial gains and losses in other comprehensive income	Contributions paid	Surplus (deficit) in schemes at 31 Dec 2017
<b>All schemes</b>					
<b>Underlying position (without the effect of IFRIC 14)</b>					
Surplus (deficit)	563	(40)	119	50	692
Less: amount attributable to PAC with-profits fund	(425)	10	(39)	(19)	(473)
Shareholders' share:					
Gross of tax surplus (deficit)	138	(30)	80	31	219
Related tax	(27)	6	(15)	(6)	(42)
Net of shareholders' tax	111	(24)	65	25	177
<b>Application of IFRIC 14 for the derecognition of PSPS surplus</b>					
Derecognition of surplus	(558)	(14)	87	–	(485)
Less: amount attributable to PAC with-profits fund	409	10	(56)	–	363
Shareholders' share:					
Gross of tax	(149)	(4)	31	–	(122)
Related tax	29	–	(6)	–	23
Net of shareholders' tax	(120)	(4)	25	–	(99)
<b>With the effect of IFRIC 14</b>					
Surplus (deficit)	5	(54)	206	50	207
Less: amount attributable to PAC with-profits fund	(16)	20	(95)	(19)	(110)
Shareholders' share:					
Gross of tax surplus (deficit)	(11)	(34)	111	31	97
Related tax	2	6	(21)	(6)	(19)
Net of shareholders' tax	(9)	(28)	90	25	78

#### Underlying investments of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans' assets at 31 December comprise the following investments:

	2017				2016			
	PSPS £m	Other schemes £m	Total £m	%	PSPS £m	Other schemes £m	Total £m	%
Equities								
UK	9	67	76	1	18	85	103	1
Overseas	226	272	498	6	293	368	661	7
Bonds*								
Government	5,040	655	5,695	63	5,411	550	5,961	66
Corporate	1,491	248	1,739	20	1,169	196	1,365	15
Asset-backed securities	164	–	164	2	144	6	150	2
Derivatives	188	(6)	182	2	252	(2)	250	3
Properties	140	130	270	3	71	109	180	2
Other assets	216	77	293	3	269	67	336	4
Total value of assets†	7,474	1,443	8,917	100	7,627	1,379	9,006	100

\* 89 per cent of the bonds are investment graded (2016: 93 per cent).

† 96 per cent of the total value of the scheme assets are derived from quoted prices in an active market (2016: 98 per cent). None of the scheme assets included shares in Prudential plc or property occupied by the Prudential Group. The IAS 19 basis plan assets at 31 December 2017 of £8,766 million (2016: £8,872 million) is different from the economic basis plan assets of £8,917 million (2016: £9,006 million) as shown above due to the exclusion of investment in Prudential insurance policies, by M&GGPS as described above.

The movements in the IAS 19 pension schemes' surplus and deficit between scheme assets and liabilities as consolidated in the financial statements were:

### Attributable to policyholders and shareholders

	Plan assets	Present value of benefit obligations note (i)	Net surplus (deficit) (without the effect of IFRIC 14)	Effect of IFRIC 14 for derecognition of PSPS surplus	Economic basis net surplus (deficit)	Other adjustments including for investments in Prudential insurance policies note (ii)	IAS 19 basis net surplus (deficit)
<b>2017 £m</b>							
Net surplus (deficit), beginning of year	9,006	(8,443)	563	(558)	5	(134)	(129)
Current service cost	–	(46)	(46)	–	(46)	–	(46)
Net interest on net defined benefit liability (asset)	228	(214)	14	(14)	–	(3)	(3)
Administration expenses	(8)	–	(8)	–	(8)	–	(8)
Benefit payments	(479)	479	–	–	–	–	–
Employers' contributions note (iii)	50	–	50	–	50	–	50
Employees' contributions	1	(1)	–	–	–	–	–
Actuarial gains and losses note (iv)	119	–	119	87	206	(6)	200
Transfer into investment in Prudential insurance policies	–	–	–	–	–	(8)	(8)
Net surplus (deficit), end of year	8,917	(8,225)	692	(485)	207	(151)	56
<b>2016 £m</b>							
Net surplus (deficit), beginning of year	7,819	(6,858)	961	(800)	161	(77)	84
Current service cost	–	(34)	(34)	–	(34)	–	(34)
Net interest on net defined benefit liability (asset)	292	(254)	38	(32)	6	(3)	3
Administration expenses	(5)	–	(5)	–	(5)	–	(5)
Benefit payments	(350)	350	–	–	–	–	–
Employers' contributions note (iii)	45	–	45	–	45	–	45
Employees' contributions	2	(2)	–	–	–	–	–
Actuarial gains and losses note (iv)	1,203	(1,645)	(442)	274	(168)	(13)	(181)
Transfer into investment in Prudential insurance policies	–	–	–	–	–	(41)	(41)
Net surplus (deficit), end of year	9,006	(8,443)	563	(558)	5	(134)	(129)

#### Notes

(i) Maturity profile of the benefit obligations

The weighted average duration of the benefit obligations of the schemes is 18.6 years (2016: 19.5 years).

The following table provides an expected maturity analysis of the undiscounted benefit obligations as at 31 December:

#### All schemes £m

	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total
2017	255	1,108	1,589	1,667	1,661	7,889	14,169
2016	243	1,090	1,585	1,694	1,704	8,508	14,824

(ii) The adjustments for investments in Prudential insurance policies are consolidation adjustments for intra-group assets and liabilities with no impact to operating results.

(iii) Total employer contributions expected to be paid into the Group defined benefit schemes for the year ending 31 December 2018 amount to £50 million (2017: £45 million).

(iv) The actuarial gains and losses attributable to policyholders and shareholders as shown in the table above are analysed as follows:

	2017 £m	2016 £m
Actuarial gains and losses		
Return on the scheme assets less amount included in interest income	119	1,203
(Losses) on changes in demographic assumptions	(10)	(18)
(Losses) on changes in financial assumptions	(101)	(1,733)
Experience gains on scheme liabilities	111	106
	119	(442)
Effect of derecognition of PSPS surplus	87	274
Consolidation adjustment for investments in Prudential insurance policies and other adjustments	(6)	(13)
	200	(181)

## C Balance sheet notes continued

### C9 Defined benefit pension schemes continued

#### (c) Estimated pension scheme surpluses and deficits continued

The losses of £1,733 million in 2016 on change in financial assumptions primarily reflect the effect of the decrease in the discount rate used in determining the scheme liabilities from 3.8 per cent in 2015 to 2.6 per cent in 2016. These 2016 losses were partially offset by the increase in the return on the scheme assets, which was greater than the amount included in interest income by £1,203 million.

#### (d) Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries and rate of increase of pensions in payment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the PAC with-profits fund as described above.

	Assumption applied			Impact of sensitivity on scheme liabilities on IAS 19 basis		
	2017	2016	Sensitivity change in assumption		2017	2016
Discount rate	2.5%	2.6%	Decrease by 0.2%	Increase in scheme liabilities by:		
				PSPS	3.5%	3.5%
				Other schemes	5.4%	5.3%
Discount rate	2.5%	2.6%	Increase by 0.2%	Decrease in scheme liabilities by:		
				PSPS	3.4%	3.5%
				Other schemes	4.9%	5.0%
Rate of inflation	3.1%	3.2%	RPI: Decrease by 0.2%	Decrease in scheme liabilities by:		
	2.1%	2.2%	CPI: Decrease by 0.2% with consequent reduction in salary increases	PSPS	0.6%	0.6%
				Other schemes	3.9%	4.1%
Mortality rate			Increase life expectancy by 1 year	Increase in scheme liabilities by:		
				PSPS	4.0%	3.5%
				Other schemes	3.8%	3.7%

## C10 Share capital, share premium and own shares

	2017			2016		
	Number of ordinary shares	Share capital £m	Share premium £m	Number of ordinary shares	Share capital £m	Share premium £m
<b>Issued shares of 5p each fully paid</b>						
<b>At 1 January</b>	2,581,061,573	129	1,927	2,572,454,958	128	1,915
Shares issued under share-based schemes	6,113,872	–	21	8,606,615	1	12
<b>At 31 December</b>	<b>2,587,175,445</b>	<b>129</b>	<b>1,948</b>	<b>2,581,061,573</b>	<b>129</b>	<b>1,927</b>

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 31 December 2017, there were options outstanding under save as you earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range		Exercisable by year
		from	to	
<b>31 December 2017</b>	<b>6,448,853</b>	<b>629p</b>	<b>1,455p</b>	<b>2023</b>
31 December 2016	7,068,884	466p	1,155p	2022

### Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £250 million as at 31 December 2017 (2016: £226 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2017, 11.4 million (2016: 10.7 million) Prudential plc shares with a market value of £218 million (2016: £175 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during 2017 was 15.1 million which was in March 2017.

The Company purchased the following number of shares in respect of employee incentive plans. The shares purchased each month are as follows:

	Number of shares	2017 share price			Number of shares	2016 share price		
		Low £	High £	Cost £		Low £	High £	Cost £
January	62,388	15.83	16.02	989,583	67,625	13.73	14.00	932,711
February	65,706	15.70	16.09	1,052,657	79,077	11.96	12.01	947,993
March	70,139	16.40	16.54	1,159,950	735,361	13.09	13.72	9,686,101
April	3,090,167	16.58	16.80	51,369,760	84,848	12.91	13.31	1,115,919
May	55,744	17.50	17.62	979,645	2,272,344	13.17	13.31	30,238,832
June	182,780	17.52	18.00	3,269,447	576,386	11.28	13.09	6,604,231
July	51,984	17.72	17.93	927,452	84,883	11.96	12.32	1,040,732
August	55,857	18.30	18.73	1,025,802	73,602	14.01	14.25	1,040,528
September	51,226	17.45	17.97	912,151	173,166	13.69	14.14	2,372,037
October	136,563	17.99	18.22	2,483,879	71,253	14.37	14.50	1,026,260
November	53,951	18.38	18.40	992,123	69,976	13.49	15.40	1,044,194
December	53,519	18.26	18.47	986,000	71,626	15.76	16.37	1,134,181
<b>Total</b>	<b>3,930,024</b>			<b>66,148,449</b>	<b>4,360,147</b>			<b>57,183,719</b>

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2017 was 6.4 million (2016: 6.0 million) and the cost of acquiring these shares of £71 million (2016: £61 million) is included in the cost of own shares. The market value of these shares as at 31 December 2017 was £121 million (2016: £97 million). During 2017, these funds made net acquisitions of 372,029 Prudential shares (2016: net disposals of 77,423) for a net increase of £9.4 million to book cost (2016: net increase of £7.9 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2017 or 2016.

## C Balance sheet notes continued

### C11 Provisions

	2017 £m	2016 £m
Provision in respect of defined benefit pension schemes <sup>c9</sup>	180	288
Other provisions (see below)	943	659
<b>Total provisions</b>	<b>1,123</b>	<b>947</b>

Analysis of other provisions:

	2017 £m	2016 £m
<b>At 1 January</b>	<b>659</b>	<b>519</b>
Charged to income statement:		
Additional provisions	542	381
Unused amounts released	(9)	(53)
Used during the year	(239)	(222)
Exchange differences	(10)	34
<b>Total at 31 December</b>	<b>943</b>	<b>659</b>

Other provisions comprise staff benefits provisions of £453 million (2016: £415 million) that are generally expected to be paid out within the next three years, other provisions of £121 million (2016: £69 million) and a provision for review of past annuity sales after utilisation during the year of £369 million (2016: £175 million). Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The FCA formally released its redress calculation methodology in early 2018 and accordingly Prudential reassessed the provision held to cover the costs of undertaking the review and any potential redress. At 31 December 2017, following this reassessment, the gross provision was increased to £400 million (2016: £175 million), excluding any utilisation during the year. The ultimate amount that will be expended by the Group on the review, which is currently expected to be completed in 2019, remains uncertain. Although the Group's professional indemnity insurance is expected to mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored into the provision, in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

### C12 Capital

#### (a) Group objectives, policies and processes for managing capital

##### (i) Capital measure

The Group manages its Group Solvency II own funds as its measure of capital. At 31 December 2017 estimated Group Solvency II own funds are £26.4 billion (2016: £24.8 billion).

##### (ii) External capital requirements

Solvency II is the Group's consolidated capital regime. Solvency II is a risk-based solvency framework required under the European Solvency II Directive as implemented by the Prudential Regulatory Authority in the UK. The Solvency II surplus represents the aggregated capital held by the Group less Solvency Capital Requirements.

##### (iii) Meeting of capital management objectives

The Group Solvency Capital Requirement has been met during 2017.

As well as holding sufficient capital to meet Solvency II requirements at Group level, the Group also closely manages the cash it holds within its central holding companies so that it can:

- Maintain flexibility, fund new opportunities and absorb shock events;
- Fund dividends; and
- Cover central costs and debt payments.

More details on holding company cash flows and balances are given in the section II(a) of the additional unaudited financial information.

While the Group at a consolidated level is subject to the Solvency II requirements, at a business unit level capital is defined by local capital regulations and local business needs.

Each of the Group's long-term business operations is capitalised to a sufficiently strong level for its individual circumstances.

The Group manages its assets, liabilities and capital locally, in accordance with local regulatory requirements and reflecting the different types of liabilities in each business. As a result of the diversity of products offered by Prudential and the different regulatory regimes under which it operates, the Group employs differing methods of asset/liability and capital management, depending on the business concerned.



Stochastic modelling of assets and liabilities is undertaken in the UK, US and Asia to assess the economic capital requirements. A stochastic approach models the inter-relationship between asset and liability movements, taking into account asset correlation, management actions and policyholder behaviour under a large number of alternative economic scenarios.

In addition, reserve adequacy testing under a range of scenarios and dynamic solvency testing is carried out, including under certain scenarios mandated by the UK, US and Asia regulators.

The sensitivity of liabilities and other components of total capital vary depending upon the type of business concerned and this conditions the approach to asset/liability management.

## (b) Local capital regulations

### (i) Asia insurance operations

The estimated capital position for Asia life insurance operations with reconciliation to shareholders' equity is shown below:

	2017 £m	2016 £m
<b>IFRS shareholders' equity</b>	<b>5,524</b>	<b>4,992</b>
<b>Adjustments to regulatory basis</b>		
Unallocated surplus of with-profits funds	3,474	2,667
Deferred acquisition costs, distribution rights and goodwill of non-participating business not recognised for regulatory reporting	(1,515)	(1,365)
Other adjustments	2,411	1,628
Total adjustments	4,370	2,930
<b>Total available capital resources of life assurance businesses on local regulatory bases</b>	<b>9,894</b>	<b>7,922</b>

The capital requirements of significant operations are:

#### China

A risk-based capital, risk management and governance framework, known as the China Risk Oriented Solvency System (C-ROSS), applies in China. Under C-ROSS, insurers are required to maintain a core solvency ratio (core capital over minimum capital) and a comprehensive solvency ratio (actual capital over minimum capital) of not lower than 50 per cent and 100 per cent, respectively. The actual capital is the difference between the admitted assets and admitted liabilities.

#### Hong Kong

The capital requirement varies by underlying risk and duration of liabilities, but is generally determined as a percentage of mathematical reserves and capital at risk. Mathematical reserves are based on a best estimate basis with prudent margins for adverse deviations, discounted at a valuation interest rate based on a blend between the risk-adjusted portfolio yield and reinvestment rate.

#### Indonesia

Solvency capital is determined using a risk-based capital approach. Insurance companies in Indonesia are expected to maintain the level of net assets above 100 per cent of solvency capital.

#### Malaysia

A risk-based capital framework applies in Malaysia. The local regulator has set a Supervisory Target Capital Level of 130 per cent below which supervisory actions of increasing intensity will be taken. Each insurer is also required to set its own Individual Target Capital Level to reflect its own risk profile and this is expected to be higher than the Supervisory Target Capital Level.

#### Singapore

A risk-based capital framework applies in Singapore. A registered insurer incorporated in Singapore is required at all times to maintain a minimum level of paid-up ordinary share capital and to ensure that its financial resources are not less than the greater of (i) the total risk requirement arising from the assets and liabilities of the insurer, calculated in accordance with the Singapore Insurance Act; or (ii) a minimum amount of S\$5 million (Singapore dollars). The regulator also has the authority to direct that the insurer satisfy additional capital adequacy requirements in addition to those set forth under the Singapore Insurance Act if it considers such additional requirements appropriate.

## C Balance sheet notes continued

### C12 Capital continued

#### (b) Local capital regulations continued

##### (ii) US insurance operations

The estimated capital position for Jackson with reconciliation to shareholders' equity is shown below:

	2017 £m	2016 £m
<b>IFRS shareholders' equity</b>	<b>5,013</b>	<b>5,204</b>
<b>Adjustments to regulatory basis</b>		
Deferred acquisition costs, distribution rights and goodwill of non-participating business not recognised for regulatory reporting	(8,197)	(8,303)
Jackson surplus notes	184	202
Investment and policyholder liabilities valuation differences between IFRS and regulatory basis for Jackson	5,325	6,657
Other adjustments	818	535
<b>Total adjustments</b>	<b>(1,870)</b>	<b>(909)</b>
<b>Total available capital resources of life assurance businesses on local regulatory bases</b>	<b>3,143</b>	<b>4,295</b>

In December 2017 a significant US tax reform package, The Tax Cuts and Jobs Act, was enacted into law effective from 1 January 2018. These reforms led to a £628 million reduction in the level of statutory net admitted deferred tax assets.

The regulatory framework for Jackson is governed by the requirements of the US NAIC approved Risk-Based Capital standards. Under these requirements life insurance companies report using a formula-based capital standard which includes components calculated by applying after-tax factors to various asset, premium and reserve items and a separate model-based component for market risk associated primarily with variable annuity products. The after-tax factors were not adjusted to reflect the impact of US Tax Reform.

At 31 December 2017, Jackson had a permitted practice in effect as granted by the local regulator allowing Jackson to carry certain interest rate swaps at book value, as if statutory hedge accounting were in place, instead of at fair value as would have been otherwise required. Jackson is required to demonstrate the effectiveness of its interest rate swap programme pursuant to the Michigan Insurance Code. The total effect of this permitted practice, net of tax, was to decrease statutory surplus by £355 million at 31 December 2017.

Under the equivalence provisions of Solvency II, Jackson is incorporated into the Group's Solvency II position at a level equal to available capital in excess of 250 per cent of the US local minimum risk-based capital requirement level at which corrective action commences.

##### (iii) UK and Europe insurance operations

Insurance operations in the UK and Europe are subject to Solvency II capital requirements on an individual basis. The UK solvency capital requirement has been met during 2017.

##### (iv) Asset management operations – regulatory and other surplus

Certain asset management subsidiaries of the Group are subject to regulatory requirements. The movement in the year of the surplus regulatory capital position of those subsidiaries, combined with the movement in the IFRS basis shareholders' funds for unregulated asset management operations, is as follows:

	Asset management operations				2016 £m
	2017 £m				
	M&G Prudential	US	Eastspring Investments	Total	
<b>Regulatory and other surplus</b>					<b>Total</b>
Beginning of year	405	205	204	814	733
Gains during the year	401	43	142	586	469
Movement in capital requirement	(65)	–	(8)	(73)	(54)
Capital injection	–	6	–	6	–
Distributions made to the parent company	(322)	–	(111)	(433)	(387)
Exchange and other movements	–	(19)	(5)	(24)	53
<b>End of year</b>	<b>419</b>	<b>235</b>	<b>222</b>	<b>876</b>	<b>814</b>

### (c) Transferability of available capital

In the UK PAC is required to meet the Solvency II capital requirements as a company as a whole, ie covering both its ring-fenced with-profits funds and non-profit funds. Further, the surplus of the with-profits funds is ring-fenced from the shareholder balance sheet with restrictions as to its distribution. Distributions from the with-profits funds to shareholders continue to reflect the shareholders' one-ninth share of the cost of declared policyholders' bonuses.

For Jackson, capital retention is maintained at a level consistent with an appropriate rating by Standard & Poor's. Currently Jackson is rated AA. Jackson can pay dividends on its capital stock only out of earned surplus unless prior regulatory approval is obtained. Furthermore, dividends which exceed the greater of statutory net gain from operations less net realised investments losses for the prior year or 10 per cent of Jackson's prior year end statutory surplus, excluding any increase arising from the application of permitted practices, require prior regulatory approval.

For Asia subsidiaries, the amounts retained within the companies are at levels that provide an appropriate level of capital strength in excess of the local regulatory minimum. For ring-fenced with-profits funds, the excess of assets over liabilities is retained with distribution tied to the shareholders' share of bonuses through declaration of actuarially determined surplus. The businesses in Asia may, in general, remit dividends to UK parent entities, provided the statutory insurance fund meets the local regulatory solvency targets.

Available capital of the non-insurance business units is transferable after taking account of an appropriate level of operating capital, based on local regulatory solvency targets, over and above base liabilities.

### C13 Property, plant and equipment

Property, plant and equipment comprise Group occupied properties and tangible assets. A reconciliation of the carrying amount of these items from the beginning of the year to the end of the year is as follows:

	2017 £m			2016 £m		
	Group occupied property	Tangible assets	Total	Group occupied property	Tangible assets	Total
<b>At 1 January</b>						
Cost	439	1,077	1,516	480	1,387	1,867
Accumulated depreciation	(88)	(685)	(773)	(69)	(601)	(670)
<b>Net book amount</b>	<b>351</b>	<b>392</b>	<b>743</b>	<b>411</b>	<b>786</b>	<b>1,197</b>
<b>Year ended 31 December</b>						
Opening net book amount	351	392	743	411	786	1,197
Exchange differences	(8)	(14)	(22)	50	52	102
Depreciation charge	(22)	(94)	(116)	(15)	(144)	(159)
Additions	17	117	134	15	333	348
Arising on acquisitions of subsidiaries*	–	178	178	–	–	–
Disposals and transfers	(43)	(85)	(128)	(110)	(635)	(745)
<b>Closing net book amount</b>	<b>295</b>	<b>494</b>	<b>789</b>	<b>351</b>	<b>392</b>	<b>743</b>
<b>At 31 December</b>						
Cost	367	1,041	1,408	439	1,077	1,516
Accumulated depreciation	(72)	(547)	(619)	(88)	(685)	(773)
<b>Net book amount</b>	<b>295</b>	<b>494</b>	<b>789</b>	<b>351</b>	<b>392</b>	<b>743</b>

\* Arising on an acquisition made for venture fund purposes by the PAC with-profits fund.

### Tangible assets

Of the £494 million (2016: £392 million) of tangible assets, £360 million (2016: £247 million) were held by the Group's with-profits operations, primarily by the consolidated subsidiaries for venture fund and other investment purposes of the PAC with-profits fund.

### Capital expenditure: property, plant and equipment by segment

The capital expenditure of £117 million (2016: £333 million) arose as follows: £41 million in UK and Europe, £19 million in US and £55 million in Asia with the remaining balance of £2 million arising from unallocated corporate expenditure (2016: £251 million in UK and Europe, £18 million in US and £62 million in Asia with the remaining balance of £2 million arising from unallocated corporate expenditure).

## C Balance sheet notes continued

### C14 Investment properties

Investment properties principally relate to the PAC with-profits fund and are carried at fair value. A reconciliation of the carrying amount of investment properties at the beginning and end of the year is set out below:

	2017 £m	2016 £m
<b>At 1 January</b>	<b>14,646</b>	13,422
Additions:		
Resulting from property acquisitions	2,009	1,338
Resulting from expenditure capitalised	39	189
Disposals	(591)	(632)
Net gain from fair value adjustments	415	273
Net foreign exchange differences	(21)	97
Transfers to held for sale assets	–	(41)
<b>At 31 December</b>	<b>16,497</b>	14,646

The 2017 income statement includes rental income from investment properties of £876 million (2016: £781 million) and direct operating expenses including repairs and maintenance arising from these properties of £82 million (2016: £67 million).

Investment properties of £5,689 million (2016: £6,020 million) are held under finance leases. The present value of minimum lease payments under these leases is £43 million (2016: £49 million) and 73 per cent (2016: 76 per cent) of lease payments are due in over five years.

The Group's policy is to let investment properties to tenants through operating leases. Minimum future rentals to be received on non-cancellable operating leases of the Group's freehold investment properties are receivable in the following periods:

	2017 £m	2016 £m
Less than 1 year	322	314
1 to 5 years	1,073	1,077
Over 5 years	2,286	2,634
<b>Total</b>	<b>3,681</b>	4,025

The total minimum future rentals to be received on non-cancellable sub-leases for the Group's investment properties held under finance leases at 31 December 2017 are £1,527 million (2016: £2,238 million).

## D Other notes

### D1 Disposal of businesses

On 18 May 2017, the Group announced that it had completed the sale of its life insurance subsidiary in Korea, PCA Life Insurance Co. Ltd. to Mirae Asset Life Insurance Co. Ltd., following regulatory approvals. The transaction, announced on 10 November 2016, was for a consideration of KRW170 billion (equivalent to £117 million at 17 May 2017 closing rate). The proceeds, net of £9 million of related expenses, were £108 million.

On completion of the sale the cumulative foreign exchange translation gain of the Korea life business of £61 million, that had arisen from 2004 (the year of the Group's conversion to IFRS) to disposal was recycled from other comprehensive income through the profit and loss account in 2017 as required by IAS 21. The adjustment has no net effect on shareholders' equity. The net contribution from the Korea life business to the 2017 profit after tax is the £61 million gain arising from the recycling of foreign exchange translation gains previously recognised in other comprehensive income and other elements in various line items of £5 million.

The 2016 income statement recorded a charge for remeasurement of Korea life business classified as held for sale of £(238) million. For 2016 the result for the year, including short-term fluctuations in investment returns, together with the adjustment to the carrying value gave rise to an aggregate loss of £(227) million. To facilitate comparisons of businesses retained by the Group, the supplementary analysis of profit shown in note B1.1 shows separately the results of the Korea life business.

On 15 August 2017, the Group, through its subsidiary National Planning Holdings, Inc. (NPH) sold its US independent broker-dealer network to LPL Financial LLC. The initial consideration received was £252 million (US\$325 million) resulting in a profit on disposal of £162 million (US\$209 million) before tax and after costs and net losses that have been incurred in the year.

### D2 Contingencies and related obligations

#### Litigation and regulatory matters

In addition to the matters set out in note C11 in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

#### Guarantees

Guarantee funds in both the UK and the US provide for payments to be made to policyholders on behalf of insolvent life insurance companies and are financed by payments assessed on solvent insurance companies based on location, volume and types of business. The estimated reserve for future guarantee fund assessments is not significant. The directors believe that the reserve is adequate for all anticipated payments for known insolvencies.

The Group has provided other guarantees and commitments to third-parties entered into in the normal course of business but the Group does not consider that the amounts involved are significant.

#### Support for with-profits sub-funds by shareholders' funds

PAC is liable to meet its obligations to with-profits policyholders even if the assets of the with-profits sub-funds are insufficient to do so. The assets, represented by the unallocated surplus of with-profits funds, in excess of amounts expected to be paid for future terminal bonuses and related shareholder transfers ('the excess assets') in the with-profits sub-funds could be materially depleted over time by, for example, a significant or sustained equity market downturn, costs of significant fundamental strategic change or a material increase in the pension mis-selling provision. In the unlikely circumstance that the depletion of the excess assets within the long-term fund was such that the Group's ability to satisfy policyholders' reasonable expectations was adversely affected, it might become necessary to restrict the annual distribution to shareholders or to contribute shareholders' funds to the with-profits sub-funds to provide financial support.

## D Other notes continued

### D2 Contingencies and related obligations continued

#### Litigation and regulatory matters continued

Matters relating to with-profits sub-funds:

- Pension mis-selling review – The UK insurance regulator required all UK life insurance companies to review sales of personal pensions policies for potential mis-selling. Offers to all cases were made by 30 June 2002. Costs arising from this review are met by the excess assets of the PAC with-profits sub-fund and hence have not been charged to the asset shares used in the determination of policyholder bonus rates. Prudential has given an assurance that these deductions from excess assets will not impact its bonus or investment policy for policies within the with-profits sub-funds that were in force at 31 December 2003. This assurance does not apply to new business since 1 January 2004. In the unlikely event that such deductions would affect the bonus or investment policy for the relevant policies, Prudential has stated it would make available support to the sub-fund from shareholder resources for as long as the situation continued, so as to ensure that policyholders were not disadvantaged.
- Scottish Amicable Insurance sub-fund – Policies within this sub-fund (a with-profits sub-fund closed to new business) contain minimum levels of guaranteed benefit to policyholders. Should the assets of the sub-fund be inadequate to meet the guaranteed benefit obligations of the policyholders of SAIF, the PAC with-profits sub-fund would be liable to cover any such deficiency in the first instance. In addition, certain pensions products within this sub-fund have guaranteed annuity rates at retirement, for which a provision of £503 million was held within the sub-fund (2016: £571 million).
- Guaranteed annuities – A provision for guaranteed annuity products of £53 million was held (2016: £62 million) in the PAC with-profits sub-fund.

#### Intra-group capital support arrangements

Prudential and PAC have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by Prudential. While Prudential considers it unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

In addition, Prudential has put in place intra-group arrangements to formalise undertakings by Prudential to the regulators of the Hong Kong subsidiaries regarding their solvency levels.

### D3 Post balance sheet events

#### Dividends

The second interim ordinary dividend for the year ended 31 December 2017, that was approved by the Board of Directors after 31 December 2017 is described in note B6.

#### Intention to demerge the Group's UK businesses

In March 2018, the Group announced its intention to demerge its UK and Europe business ('M&G Prudential') from Prudential plc, resulting in two separately listed companies. In preparation for the UK demerger process, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

#### Sale of £12.0 billion\* UK annuity portfolio

In March 2018, M&G Prudential also announced the sale of £12.0 billion\* of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion\* of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. Further details are set out in the CFO Report.

\* Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

## D4 Related party transactions

Transactions between the Company and its subsidiaries are eliminated on consolidation.

The Company has transactions and outstanding balances with certain unit trusts, Open-Ended Investment Companies (OEICs), collateralised debt obligations and similar entities which are not consolidated and where a Group company acts as manager which are regarded as related parties for the purposes of IAS 24. The balances are included in the Group's statement of financial position at fair value or amortised cost in accordance with their IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and paid in respect of the periodic charge and administration fee.

In addition, there are no material transactions between the Group's joint ventures which are accounted for on an equity method basis and other Group companies.

Executive officers and directors of the Company may from time to time purchase insurance, asset management or annuity products marketed by Group companies in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons.

In 2017 and 2016, other transactions with directors were not deemed to be significant both by virtue of their size and in the context of the directors' financial positions. All of these transactions are on terms broadly equivalent to those that prevail in arm's length transactions.

Apart from these transactions with directors, no director had interests in shares, transactions or arrangements that require disclosure, other than those given in the Directors' remuneration report. Key management remuneration is disclosed in note B2.3.

## D5 Commitments

### Operating leases and capital commitments

The Group leases various offices to conduct its business. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

	2017 £m	2016 £m
Future minimum lease payments for non-cancellable operating leases fall due during the following periods:		
Not later than 1 year	113	107
Later than 1 year and not later than 5 years	284	209
Later than 5 years	118	96
Future minimum sub-lease rentals received for non-cancellable operating leases for land and buildings	56	60
Minimum lease rental payments included in consolidated income statement	123	115

In addition, the Group has provided, from time to time, certain guarantees and commitments to third parties including funding the purchase or development of land and buildings and other related matters. The contractual obligations to purchase or develop investment properties at 31 December 2017 were £176 million (2016: £458 million).

At 31 December 2017, Jackson has unfunded commitments of £414 million (2016: £465 million) related to its investments in limited partnerships and £214 million (2016: £201 million) related to commercial mortgage loans and other fixed maturities. These commitments were entered into in the normal course of business and a material adverse impact on the operations is not expected to arise from them.

At 31 December 2017, UK and Europe's insurance operations had unfunded commitments of £3,225 million (2016: £2,269 million) to private equity and infrastructure funds. These commitments were entered into in the normal course of business and no material adverse impact on the operations is expected to arise.

## D6 Investments in subsidiary undertakings, joint ventures and associates

### (a) Dividend restrictions and minimum capital requirements

Certain Group subsidiaries and joint ventures are subject to restrictions on the amount of funds they may transfer in the form of cash dividends or otherwise to the parent company.

Under UK company law, UK companies can only declare dividends if they have sufficient distributable reserves. Further, UK insurance companies are required to maintain solvency margins in accordance with the rules of the Prudential Regulation Authority. M&G Prudential's asset management company, M&G Investment Management Limited, is also required to maintain capital in accordance with regulatory requirements before making any distribution to the parent company.

Jackson is subject to state laws that limit the dividends payable to its parent company based on statutory capital, surplus and prior year earnings. Dividends in excess of these limitations require prior regulatory approval.

The Group's subsidiaries, joint ventures and associates in Asia may remit dividends to the Group, in general, provided the statutory insurance fund meets the capital adequacy standard required under local statutory regulations and has sufficient distributable reserves. For further details on local capital regulations in Asia please refer to note C12(b).

## D Other notes continued

### D6 Investments in subsidiary undertakings, joint ventures and associates continued

#### (b) Investments in joint ventures and associates

Joint ventures represent arrangements where the controlling parties through contractual or other agreement have the rights to the net assets of the arrangements. The Group has shareholder-backed joint venture insurance and asset management businesses in China with CITIC Group, and until September 2016 in India with ICICI Bank (see below). In addition, there is an asset management joint venture in Hong Kong with Bank of China International Holdings Limited (BOCI) and Takaful general and life insurance joint venture in Malaysia.

The Group has various joint ventures relating to property investments held by the PAC with-profits fund. The results of these joint ventures are reflected in the movement in the unallocated surplus of the PAC with-profits funds and therefore do not affect shareholders' results.

For the Group's joint ventures that are accounted for by using the equity method, the net of tax results of these operations are included in the Group's profit before tax.

The investments in these joint ventures have the same accounting year end as the Group.

The Group's associates, which are also accounted for under the equity method, include PPM South Africa and from September 2016 the Indian insurance entity, see below. In addition, the Group has investments in Open-Ended Investment Companies (OEICs), unit trusts, funds holding collateralised debt obligations, property unit trusts and venture capital investments of the PAC with-profits funds where the Group has significant influence. As allowed under IAS 28, these investments are accounted for on a fair value through profit or loss basis. The aggregate fair value of associates accounted for at fair value through profit or loss, where there are published price quotations, is approximately £2.4 billion at 31 December 2017 (2016: £3.5 billion).

During 2016, following its listing and consequent amendments to the shareholder agreement, the Group ceased to exercise joint control over the insurance business in India, therefore the investment was re-classified as an associate, and continued to be accounted for using the equity method.

The Group's share of the profits (including short-term fluctuations in investment returns), net of related tax, and carrying amount of interest in joint ventures and associates, which are equity accounted as shown in the consolidated income statement comprises the following:

								Joint ventures and associates	
	Asia		US		UK and Europe		Total segment	Unallocated to a segment (other operations)	Group total
	Insurance	Asset management	Insurance	Asset management	Insurance	Asset management			
Shareholder-backed business							196		161
PAC with-profits fund (prior to offsetting effect in movement in unallocated surplus)							106		21
<b>Total</b>							<b>302</b>		<b>182</b>
<b>2017</b>									
Share of profits from joint ventures and associates, net of related tax	121	60	–	–	106	15	302	–	302
<b>2016</b>									
Share of profits from joint ventures and associates, net of related tax	94	54	–	–	21	13	182	–	182

There is no other comprehensive income in the joint ventures and associates. There has been no unrecognised share of losses of a joint venture or associate that the Group has stopped recognising in the total income.

The joint ventures have no significant contingent liabilities or capital commitments to which the Group is exposed nor does the Group have any significant contingent liabilities or capital commitments in relation to its interests in the joint ventures.



**Key to Classes of shares held**

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

**(c) Related undertakings**

In accordance with Section 409 of the Companies Act 2006 a list of Prudential Group's subsidiaries, joint ventures, associates and significant holdings (being holdings of more than 20 per cent) along with the classes of shares held, the registered office address and the country of incorporation and the effective percentage of equity owned at 31 December 2017 is disclosed below.

The definitions of a subsidiary undertaking, joint venture and associate in accordance with the Companies Act 2006 are different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. The Group's consolidation policy is described in note A3.1(b).

**Direct subsidiary undertakings of the parent company, Prudential plc (shares held directly or via nominees)**

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Group Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential (US Holdco1) Limited	OS	100.00%	
Prudential Capital Holding Company Limited	OS	100.00%	
Prudential Corporation Asia Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudential Financial Services Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Group Holdings Limited	OS	100.00%	
Prudential Property Services Limited	OS	100.00%	
The Prudential Assurance Company Limited	OS	100.00%	

**Other subsidiaries, joint ventures, associates and significant holdings of the Group – no shares held directly by the parent company, Prudential plc or its nominees**

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Allied Life Brokerage Agency, Inc	OS	100.00%	400 East Court Avenue, Des Moines, IA 50309, USA
ANRP II (AIV VI FC), LP	LPI	36.58%	Cayman Corporate Centre, 27 Hospital Road, George Town, KY-9008, Cayman Islands
BOCHK Aggressive Growth Fund	OS	60.22%	27th Floor, Bank of China Tower, 1 Garden Road, Central and Western District, Hong Kong
BOCHK Balanced Growth Fund	OS	48.19%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
BOCHK China Equity Fund	OS	66.25%	
BOCHK Conservative Growth Fund	OS	56.35%	
BOCI - Prudential Asset Management Limited	OS	36.00%	27th Floor, Bank of China Tower, 1 Garden Road, Central and Western District, Hong Kong
BOCI - Prudential Trustee Limited	OS	36.00%	12th Floor and 25th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
Brier Capital LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Brooke (Holdco 1) Inc	OS	100.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Brooke Holdings (UK) (In liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, UK
Brooke Life Insurance Company	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
BWAT Retail Nominee (1) Limited	OS	50.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
BWAT Retail Nominee (2) Limited	OS	50.00%	
Calvin F1 GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Calvin F2 GP Limited	OS	100.00%	
Canada Property (Trustee) No 1 Limited	OS	100.00%	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
Canada Property Holdings Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Canada Property Jersey No. 2 Trust	OS	100.00%	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
Canada Property Jersey Trust	OS	100.00%	
Cardinal Distribution Park Management Limited	OS	66.00%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Carroway Guildford (Nominee A) Limited	OS	100.00%	13 Castle Street, St Helier, Jersey, JE4 5UT
Carroway Guildford (Nominee B) Limited	OS	100.00%	
Carroway Guildford General Partner Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Carroway Guildford Investments Unit Trust	OS	100.00%	13 Castle Street, St Helier, Jersey, JE4 5UT
Carroway Guildford LP	LPI	100.00%	Lloyds Chambers, 1 Portsoken Street, London, E1 8HZ, UK
Centaurus Retail LLP	LPI	50.00%	40 Broadway, London, SW1H 0BU, UK
Central Square Leeds Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, UK
Centre Capital Non-Qualified Investors IV AIV Orion, LP	LPI	76.80%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors IV AIV-ELS, LP	LPI	76.53%	

## D Other notes continued

### D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Centre Capital Non-Qualified Investors IV AIV-RA, LP	LPI	31.92%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Centre Capital Non-Qualified Investors IV, LP	LPI	73.06%	
Centre Capital Non-Qualified Investors V AIV-ELS, LP	LPI	73.16%	
Centre Capital Non-Qualified Investors V, LP	LPI	67.16%	
CEP IV-A Chicago AIV, LP	LPI	31.92%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A CWV AIV, LP	LPI	31.95%	850 New Burton Road, Suite 201, Dover, DE 19904, USA
CEP IV-A Davenport AIV, LP	LPI	31.92%	615 South Dupont Highway, Dover, DE 19901, USA
CEP IV-A Indy AIV, LP	LPI	31.92%	
CEP IV-A NMR AIV, LP	LPI	31.92%	
CEP IV-A WBCT AIV, LP	LPI	31.91%	
CF Prudential European QIS Fund	OS	97.68%	17 Rochester Row, London, SW1P 1QT, UK
CF Prudential Japanese QIS Fund	OS	97.64%	
CF Prudential North American QIS Fund	OS	98.33%	135 Bishopsgate, London, EC2M 3UR, UK
CF Prudential Pacific Markets Trust Fund	OS	97.96%	Laurence Pountney Hill, London, EC4R 0HH, UK
CF Prudential UK Growth QIS Fund	OS	94.27%	17 Rochester Row, London, SW1P 1QT, UK
CITIC-CP Asset Management Co., Ltd.	MI	26.95%	No.128 North Zhangjiabang Road, Pudong District, Shanghai, China
CITIC-Prudential Fund Management Co., Ltd.	MI	49.00%	Level 9, HSBC Building, Shanghai IFC, 8 Century Avenue, Pudong, Shanghai, China
CITIC-Prudential Life Insurance Company Limited	MI	50.00%	East Tower, World Financial Centre, No. 1 East Third Ring Middle Road, Chaoyang District, Beijing, China
Clairvest Equity Partners IV-A LP	LPI	31.87%	22 St Clair Avenue East, Suite 1700, Toronto, ON M4T 2S3, Canada
Cribbs Causeway JV Limited	OS	50.00%	40 Broadway, London, SW1H 0BU, UK
Cribbs Causeway Merchants Association Limited	LBG	100.00%	The Mall at Cribbs Causeway, Bristol, BS34 5DG, UK
Cribbs Mall Nominee (1) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Curian Capital, LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Curian Clearing, LLC (Michigan)	OS	100.00%	
Digital Infrastructure Investment Partners GP LLP	LPI	65.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Digital Infrastructure Investment Partners GP1 Limited	OS	100.00%	
Digital Infrastructure Investment Partners LP	LPI	100.00%	
Digital Infrastructure Investment Partners SLP GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Digital Infrastructure Investment Partners SLP GP1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Digital Infrastructure Investment Partners SLP GP2 Limited	OS	100.00%	
Eastspring Al-Wara' Investments Berhad	OS	100.00%	16th Floor, Wisma Sime Darby, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia
Eastspring Asset Management Korea Co. Ltd.	OS	100.00%	15th Floor, Shinhan Investment Tower, 70 Yoidae-ro, Youngdungpo-gu, Seoul 07325, Korea
Eastspring Infrastructure Debt Fund L.P.	PI	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Investments - Asian Local Bond Fund	OS	97.95%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - Asian Smaller Companies Fund	OS	99.69%	
Eastspring Investments - Asian Total Return Bond Fund	OS	100.00%	
Eastspring Investments - Developed and Emerging Asia Equity Fund	OS	100.00%	
Eastspring Investments - Emerging Europe, Middle East and Africa Dynamic Fund	OS	100.00%	
Eastspring Investments - Global Emerging Markets Customized Equity Fund	OS	99.90%	
Eastspring Investments - Global Emerging Markets Dynamic Fund	OS	96.48%	
Eastspring Investments - Global Low Volatility Equity Fund	OS	99.57%	
Eastspring Investments - Global Technology Fund	OS	84.46%	
Eastspring Investments - Japan Equity Fund	OS	85.13%	
Eastspring Investments - Japan Fundamental Value Fund	OS	98.45%	
Eastspring Investments - Pan European Fund	OS	56.25%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments - US Equity Income Fund	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments - US High Yield Bond Fund	OS	32.58%	
Eastspring Investments - US Total Return Bond Fund	OS	100.00%	
Eastspring Investments (Hong Kong) Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

**Key to Classes of shares held**

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Eastspring Investments (Luxembourg) SA	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments (Singapore) Limited	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Tower 2, Singapore 018983
Eastspring Investments Asia Pacific Equity Fund	OS	99.93%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Asian Bond Fund	OS	82.70%	
Eastspring Investments Asian Dynamic Fund	OS	90.17%	
Eastspring Investments Asian Equity Fund	OS	65.25%	
Eastspring Investments Asian Equity Income Fund	OS	83.03%	
Eastspring Investments Asian High Yield Bond Fund	OS	47.52%	
Eastspring Investments Asian Infrastructure Equity Fund	OS	36.37%	
Eastspring Investments Asian Low Volatility Equity Fund	OS	92.37%	
Eastspring Investments Asian Property Securities Fund	OS	95.47%	
Eastspring Investments Berhad	OS	100.00%	16th Floor, Wisma Sime Darby, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia
Eastspring Investments China Equity Fund	OS	50.03%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Dragon Peacock Fund	OS	97.21%	
Eastspring Investments European Investment Grade Bond Fund	OS	99.36%	
Eastspring Investments Fund Management Limited Liability Company	MI	100.00%	23rd Floor, Saigon Trade Center, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Eastspring Investments Global Emerging Markets Bond Fund	OS	94.59%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Global Equity Navigator Fund	OS	99.99%	
Eastspring Investments Global Market Navigator Fund	OS	97.63%	
Eastspring Investments Global Multi Asset Income Plus Growth Fund	OS	100.00%	
Eastspring Investments Greater China Equity Fund	OS	92.37%	
Eastspring Investments Hong Kong Equity Fund	OS	99.86%	
Eastspring Investments Incorporated	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Eastspring Investments India Consumer Equity Open Limited	OS	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront, Port Louis, Mauritius
Eastspring Investments India Equity Fund	OS	81.09%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments India Equity Open Limited	OS	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront, Port Louis, Mauritius
Eastspring Investments India Infrastructure Equity Open Limited	OS	100.00%	
Eastspring Investments Latin American Equity Fund	OS	89.29%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Limited	OS	100.00%	Marunouchi Park Building, 6-1 Marunouchi 2-chome, Chiyoda-Ku, Tokyo, Japan
Eastspring Investments Limited (In liquidation)	OS	100.00%	Level 6, Precinct Building 5, Unit 5, Dubai International Financial Centre, Dubai, United Arab Emirates
Eastspring Investments North America Value Fund	OS	99.97%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments Services Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Tower 2, Singapore 018983
Eastspring Investments SICAV-FIS – Alternative Investments Fund	OS	100.00%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Investments SICAV-FIS – Asia Pacific Loan Fund	OS	100.00%	
Eastspring Investments SICAV-FIS Universal USD Bond Fund	OS	99.95%	
Eastspring Investments SICAV-FIS Universal USD Bond II Fund	OS	100.00%	
Eastspring Investments US Bond Fund	OS	28.34%	
Eastspring Investments US Corporate Bond Fund	OS	86.49%	
Eastspring Investments US High Investment Grade Bond Fund	OS	92.09%	
Eastspring Investments US Investment Grade Bond Fund	OS	27.01%	
Eastspring Investments UT Singapore ASEAN Equity Fund	OS	99.72%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Eastspring Investments UT Singapore Select Bond Fund	OS	90.97%	
Eastspring Investments World Value Equity Fund	OS	88.41%	26, Boulevard Royal, L-2449, Luxembourg
Eastspring Real Assets Partners	OS	100.00%	PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
Eastspring Securities Investment Trust Co., Ltd.	OS	99.54%	4th Floor, No.1 Songzhi Road, Taipei 110, Taiwan
Edger Investments Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Edinburgh Park (Management) Limited	LBG	100.00%	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL, UK

## D Other notes continued

### D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Embankment GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Embankment Nominee 1 Limited	OS	100.00%	
Embankment Nominee 2 Limited	OS	100.00%	
Empire Holding SARL (In liquidation)	OS	100.00%	5, rue Guillaume Kroll, L-1882, Luxembourg
Euro Salas Properties Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
European Specialist Investment Funds – M&G Total Return Credit Investment Fund	OS	30.75%	80, route d'Esch, L-1470, Luxembourg
Falan GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Fashion Square ECO LP (In liquidation)	LPI	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
First Dakota, Inc	OS	50.00%	314 East Thayer Avenue, Bismarck, ND 58501, USA
Five Hotel Holding, LLC	MI	100.00%	208 South LaSalle Street, Suite 814, Chicago, IL 60604, USA
Foudry Properties Limited	OS	50.00%	Clearwater Court, Vastern Road, Reading, RG1 8DB, UK
Furnival Insurance Company PCC Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
Genny GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Genny GP 2 Limited	OS	100.00%	
Genny GP 1 LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
George Digital GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
George Digital GP 1 LLP	LPI	100.00%	
George Digital GP 2 Limited	OS	100.00%	
GGE GP Limited	OS	100.00%	
Green GP Limited	OS	100.00%	
Greenpark (Reading) General Partner Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Greenpark (Reading) Nominee No. 1 Limited	OS	100.00%	
GreenPark (Reading) Nominee No. 2 Limited	OS	100.00%	
GS Twenty Two Limited	OS	100.00%	
Hermitage Management, LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Holborn Bars Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Holtwood Limited	OS	100.00%	International House, Castle Hill, Victoria Road, Douglas, IM2 4RB, Isle of Man
Hudson Seasons, LLC	MI	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
Hyde Holdco 1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
ICICI Prudential Asset Management Company Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
ICICI Prudential Life Insurance Company Limited	OS	25.83%	ICICI PruLife Towers, 1089 Appasaheb Marathe Marg, Prabhadevi, Mumbai 400025, India
ICICI Prudential Pension Funds Management Company Limited	OS	25.83%	
ICICI Prudential Trust Limited	OS	49.00%	12th Floor, Narain Manzil, 23, Barakhamba Road, New Delhi 110001, India
IFC Holdings, Inc	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Infracapital (AIRI) GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital (Belmond) GP Limited	OS	100.00%	
Infracapital (Bio) GP Limited	OS	100.00%	
Infracapital (GC) GP Limited	OS	100.00%	
Infracapital (IT PPP) GP Limited	OS	100.00%	
Infracapital (Sense) GP Limited	OS	100.00%	
Infracapital (TLSB) GP Limited	OS	100.00%	
Infracapital (TLSB) SLP LP	LPI	100.00%	
Infracapital ABP GP Limited (In liquidation)	OS	100.00%	
Infracapital C II Limited	OS	100.00%	
Infracapital DF II GP LLP	LPI	100.00%	
Infracapital DF II Limited	OS	100.00%	
Infracapital Employee Feeder GP Limited	OS	100.00%	
Infracapital Employee Feeder GP 1 LLP	LPI	100.00%	
Infracapital Employee Feeder GP 2 LLP	LPI	100.00%	

**Key to Classes of shares held**

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Infracapital F1 GP2 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital F2 GP1 Limited	OS	100.00%	
Infracapital F2 GP2 Limited	OS	100.00%	
Infracapital GP 1 LLP	LPI	100.00%	
Infracapital GP 2 LLP	LPI	100.00%	
Infracapital GP II Limited	OS	100.00%	
Infracapital GP Limited	OS	100.00%	
Infracapital Greenfield DF GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I SLP GP LLP	LPI	100.00%	
Infracapital Greenfield Partners I SLP GP1 Limited	OS	100.00%	
Infracapital Greenfield Partners I SLP GP2 Limited	OS	100.00%	
Infracapital Greenfield Partners I Employee Feeder GP LLP	LPI	100.00%	
Infracapital Greenfield Partners I GP 1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Greenfield Partners I GP 2 Limited	OS	100.00%	
Infracapital Greenfield Partners I GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I LP	LPI	26.52%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Greenfield Partners I SLP2 GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Greenfield Partners I Subholdings GP LLP	LPI	100.00%	
Infracapital Greenfield Partners I Subholdings GP1 Limited	OS	100.00%	
Infracapital Long Term Income Partners GP LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital Long Term Income Partners GP 1 Limited (In liquidation)	OS	100.00%	
Infracapital Long Term Income Partners GP 2 Limited (In liquidation)	OS	100.00%	
Infracapital Partners II LP	LPI	31.56%	
Infracapital Partners II Subholdings GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Partners II Subholdings GP1 Limited	OS	100.00%	
Infracapital Partners III GP SARL	OS	100.00%	6, rue Eugène Ruppert, L-245, Luxembourg
Infracapital Partners LP	LPI	33.04%	Laurence Pountney Hill, London, EC4R 0HH, UK
Infracapital RF GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Infracapital Sisu GP Limited	OS	100.00%	
Infracapital SLP II GP LLP	LPI	100.00%	
Infracapital SLP II LP	LPI	34.00%	
Infracapital SLP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Innisfree M&G PPP LP	LPI	62.22%	Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR, UK
Innisfree M&G PPP LLP	LPI	35.00%	
INVEST Financial Corporation Insurance Agency Inc, of Delaware	OS	100.00%	100 West 10th Street, Wilmington, DE 19801, USA
INVEST Financial Corporation Insurance Agency Inc, of Illinois	OS	100.00%	208 South LaSalle Street, Chicago, IL 60604, USA
Investment Centers of America, Inc	OS	100.00%	314 East Thayer Avenue, Bismarck, ND 58501, USA
Jackson Charitable Foundation, Inc	NSB	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson Holdings, LLC	OS	100.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Jackson National Asset Management, LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life (Bermuda) Limited	OS	100.00%	Cedar House, Hamilton, Bermuda
Jackson National Life Distributors, LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Jackson National Life Insurance Company	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Jackson National Life Insurance Company of New York	OS	100.00%	2900 Westchester Avenue, Suite 305, Purchase, NY 10577, USA
Jefferies Capital Partners V, LP	LPI	21.92%	1209 Orange Street, Wilmington, DE 19801, USA
JNL Strategic Income Fund, LLC	MI	100.00%	
Lion Credit Opportunity Fund plc – Credit Opportunity Fund XV	OS	99.98%	53 Merrion Square South, Dublin 2, D02 PR63, Ireland
LIPP SARL (In liquidation)	OS	100.00%	5, rue Guillaume Kroll, L-1882, Luxembourg
Livicos Limited	OS	100.00%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
London Stone Investments F3 Employee Feeder GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
London Stone Investments F3 I Limited	OS	100.00%	
London Stone Investments F3 II Limited	OS	100.00%	
London Stone Investments F3 SP GP LLP	LPI	100.00%	

## D Other notes continued

### D6 Investments in subsidiary undertakings, joint ventures and associates continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G (Guernsey) Limited	OS	100.00%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
M&G (Lux) Investment Funds 1 - M&G (Lux) Floating Rate High Yield Solution	OS	93.99%	49, Avenue J.F. Kennedy, L-1855, Luxembourg
M&G Alternatives Investment Management Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Asia Property Fund	OS	54.49%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Corporate Bond Fund	OS	25.71%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Dividend Fund	OS	55.09%	
M&G Episode Defensive Fund	OS	91.64%	
M&G Episode Macro Fund	OS	22.83%	
M&G European Credit Investment Fund	OS	99.98%	80, route d'Esch, L-1470, Luxembourg
M&G European High Yield Credit Investment Fund	OS	100.00%	
M&G European Property Fund SICAV-FIS	OS	51.86%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G European Secured Property Income Fund	U	22.97%	
M&G European Select Fund	OS	39.97%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G European Strategic Value Fund	OS	71.25%	
M&G Financial Services Limited	OS	100.00%	
M&G Founders 1 Limited	OS	100.00%	
M&G General Partner Inc	OS	100.00%	Walker House, 87 Mary Street, Grand Cayman, KY1-9002, Cayman Islands
M&G Gilt & Fixed Interest Income Fund	OS	45.22%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Global Corporate Bond Fund	OS	31.25%	
M&G Global Credit Investment Fund	OS	67.28%	80, route d'Esch, L-1470, Luxembourg
M&G Global Leaders Fund	OS	24.91%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Global Select Fund	OS	20.09%	
M&G IMPPP 1 Limited	OS	100.00%	
M&G International Investments Limited	OS	100.00%	
M&G International Investments Nominees Limited	OS	100.00%	
M&G International Investments SA	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G International Investments Switzerland AG	OS	100.00%	Talstrasse 66, 8001 Zurich, Switzerland
M&G Investment Funds (10) - M&G Absolute Return Bond Fund	OS	50.23%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Investment Funds (10) - M&G Global Listed Infrastructure Fund	OS	64.83%	
M&G Investment Management Limited	OS	100.00%	
M&G Investments (Hong Kong) Limited	OS	100.00%	6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong
M&G Investments (Singapore) Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
M&G Investments Japan Co., Ltd.	OS	100.00%	3-1 Toranomon, 4 Chome, Minato-ku, Tokyo, Japan
M&G Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Luxembourg SA	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
M&G Managed Growth Fund	OS	26.14%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Management Services Limited	OS	100.00%	
M&G Nominees Limited	OS	100.00%	
M&G Pan European Dividend Fund	OS	25.74%	
M&G PFI 2018 GP LLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI 2018 GP1 Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G PFI 2018 GP2 Limited	OS	100.00%	
M&G PFI Carry Partnership 2016 LP	LPI	25.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G PFI Partnership 2018 LP	LPI	100.00%	
M&G Platform Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Prudential Limited	OS	100.00%	
M&G RE Espana 2016 S.L.	OS	100.00%	Plaza de Colon, Torre II, Planta 14, 28046, Madrid, Spain
M&G Real Estate Asia Holding Company Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
M&G Real Estate Asia Pte. Ltd.	OS	100.00%	
M&G Real Estate Debt Fund LP	LPI	29.20%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
M&G Real Estate Funds Management SARL	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg

**Key to Classes of shares held**

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Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
M&G Real Estate Japan Co., Ltd.	OS	100.00%	9th Floor, Shiroyama Trust Tower, 4-3-1 Toranomon, Minato-ku, Tokyo, 105-6009, Japan
M&G Real Estate Korea Co., Ltd.	OS	100.00%	17th Floor, Kyobo Building 1, Jongno, Jongno-Gu, Seoul, Korea
M&G Real Estate Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G Real Estate UK Enhanced Value LP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G Real Estate UKEV (GP) LLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G RED Employee Feeder GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED GP Limited	OS	100.00%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
M&G RED II Employee Feeder GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II GP Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
M&G RED II SLP GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED II SLP LP	LPI	28.00%	
M&G RED III Employee Feeder GP Limited	OS	100.00%	
M&G RED III GP Limited	OS	100.00%	Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey, GY1 1WG
M&G RED III SLP GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
M&G RED III SLP LP	LPI	25.00%	
M&G RED SLP GP Limited	OS	100.00%	
M&G RED SLP LP	LPI	44.00%	
M&G RPF GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G RPF Nominee 1 Limited	OS	100.00%	
M&G RPF Nominee 2 Limited	OS	100.00%	
M&G Securities Limited	OS	100.00%	
M&G SIF Management Company (Ireland) Limited	OS	100.00%	78 Sir John Rogerson's Quay, Dublin 2, D02 RK57, Ireland
M&G UK Companies Financing Fund II LP	LPI	48.32%	Laurence Pountney Hill, London, EC4R 0HH, UK
M&G UK Property GP Limited	OS	100.00%	
M&G UK Property Nominee 1 Limited	OS	100.00%	
M&G UK Property Nominee 2 Limited	OS	100.00%	
M&G UKCF II GP Limited	OS	100.00%	
M&G UKEV (SLP) General Partner LLP	LPI	100.00%	
M&G UKEV (SLP) LP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Manchester JV Limited	OS	50.00%	40 Broadway, London, SW1H 0BU, UK
Manchester Nominee (1) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
MCF S.r.l	LPI	45.00%	Via Romagnosi 18/a, 00196 Roma, Italy
Minster Court Estate Management Limited	OS	75.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Mission Plans of America, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
MM&S (2375) Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Murphy & Partners Fund, LP	LPI	21.07%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
NAPI REIT, Inc	OS	99.00%	300 E Lombard Street, Baltimore, MD 21202, USA
National Planning Corporation	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
National Planning Holdings, Inc	OS	100.00%	
North Sathorn Holdings Company Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Nova Sepadu Sdn. Bhd. (In liquidation)	OS	51.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Oaktree Business Park Limited	OS	12.50%	Laurence Pountney Hill, London, EC4R 0HH, UK
Old Kingsway, LP	LPI	100.00%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
Optimus Point Management Company Limited	OS	100.00%	Barratt House Cartwright Way, Bardonia, Leicestershire, LE67 1UF, UK
Pacus (UK) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PCA IP Services Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PCA Life Assurance Co. Ltd.	OS	99.79%	8th Floor, No.1 Songzhi Road, Taipei 11047, Taiwan
PCA Reinsurance Co. Ltd.	OS	100.00%	Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Federal Territory of Labuan, Malaysia
PGDS (UK One) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

**D6 Investments in subsidiary undertakings, joint ventures and associates** continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
PGDS (US One), LLC	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
PGF Management Company (Ireland) Limited	OS	50.00%	5 George's Dock, Dublin 1, D01 X8N7, Ireland
PPM America Capital Partners II, LLC	MI	63.45%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM America Capital Partners III, LLC	MI	60.50%	
PPM America Capital Partners IV, LLC	MI	34.50%	
PPM America Capital Partners V, LLC	MI	34.00%	
PPM America Capital Partners VI, LLC	MI	32.00%	
PPM America Capital Partners, LLC	MI	52.50%	
PPM America Private Equity Fund II, LP	LPI	99.81%	
PPM America Private Equity Fund III, LP	LPI	99.81%	
PPM America Private Equity Fund IV, LP	LPI	99.84%	
PPM America Private Equity Fund, LP	LPI	99.60%	
PPM America Private Equity Fund V, LP	LPI	99.84%	
PPM America Private Equity Fund VI, LP	LPI	99.85%	
PPM America, Inc	OS	100.00%	
PPM Capital (Holdings) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
PPM CLO 2018-1 Ltd.	PS	100.00%	Queensgate House, South Church Street, George Town, Grand Cayman KY1-1102, Cayman Islands
PPM Finance, Inc	OS	100.00%	874 Walker Road, Suite C, Dover, DE 19904, USA
PPM Holdings, Inc	OS	100.00%	
PPM Loan Management Company LLC	MI	100.00%	
PPM Loan Management Holding Company LLC	MI	100.00%	
PPM Managers GP Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
PPM Managers Partnership CI VII (A) LP	LPI	25.00%	
PPM Ventures (Asia) Limited (In liquidation)	OS	100.00%	Gloucester Tower, 15 Queens Road, Central, Hong Kong
PPMC First Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prenetics Limited	PS	15.00%	7th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
Property Partners (Two Rivers) Limited	OS	50.00%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Pru Life Insurance Corporation of U.K.	OS	100.00%	9th Floor, Uptown Place Tower 1, 1 East 11th Drive, Uptown Bonifacio, 1634 Taguig City, Metro Manila, Philippines
Pru Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudence Foundation	LBG	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Prudence Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential (Cambodia) Life Assurance Plc	OS	100.00%	20th Floor, #445, Monivong Blvd, Boeung Prohit, 7 Makara, Phnom Penh Tower, Phnom Penh, Cambodia
Prudential / M&G UKCF GP Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Africa Holdings Limited	OS	100.00%	
Prudential Africa Services Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Assurance Company Singapore (Pte) Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Assurance Malaysia Berhad	OS	51.00%	Level 3, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Assurance Uganda Limited	OS	100.00%	Kampala Road, Kampala, Uganda
Prudential BSN Takaful Berhad	OS	49.00%	Level 8A, Menara Prudential, No. 10 Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Prudential Capital (Singapore) Pte. Ltd.	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Prudential Capital plc	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Corporate Pensions Trustee Limited	OS	100.00%	
Prudential Corporation Australasia Holdings Pty Limited	OS	100.00%	c/o Highgate Legal Pty Limited, 33 Lexington Drive, Bella Vista, NSW 2153, Australia
Prudential Corporation Holdings Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Credit Opportunities 1 SARL	OS	100.00%	1, Rue Hildegarde von Bingen, L-1282 Luxembourg
Prudential Credit Opportunities GP SARL	OS	100.00%	
Prudential Credit Opportunities SCSP	OS	100.00%	



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Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Development Management Limited (In liquidation)	OS PS	100.00% 100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, UK
Prudential Distribution Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Dublin Investments Limited (In liquidation)	OS	100.00%	IFSC, North Wall Quay, Dublin 1, D01 H104, Ireland
Prudential Dynamic 0-30 Portfolio	OS	29.81%	17 Rochester Row, London, SW1P 1QT, UK
Prudential Dynamic 10-40 Portfolio	OS	31.51%	
Prudential Dynamic 20 - 55 Portfolio	OS	36.60%	
Prudential Dynamic 40-80 Portfolio	OS	38.09%	
Prudential Dynamic 60-100 Portfolio	OS	35.42%	
Prudential Dynamic Focused 0-30 Portfolio	OS	61.66%	
Prudential Dynamic Focused 20 - 55 Portfolio	OS	42.94%	
Prudential Dynamic Focused 40-80 Portfolio	OS	28.38%	
Prudential Dynamic Focused 60-100 Portfolio	OS	31.01%	
Prudential Equity Release Mortgages Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Europe Assurance Holdings Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Financial Planning Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Five Limited	OS	100.00%	
Prudential General Insurance Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential Global Services Private Limited	OS	100.00%	Prudential House, Mumbai, India
Prudential GP Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Greenfield GPLLP	LPI	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Greenfield GP1 Limited	OS	100.00%	
Prudential Greenfield GP2 Limited	OS	100.00%	
Prudential Greenfield LP	LPI	100.00%	
Prudential Greenfield SLP GPLLP	LPI	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Prudential Group Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Group Secretarial Services Limited	OS	100.00%	
Prudential Holborn Life Limited	OS	100.00%	
Prudential Holdings Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Hong Kong Limited	OS	100.00%	59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong
Prudential International Assurance plc	OS	100.00%	Montague House, Adelaide Road, Dublin 2, D02 K039, Ireland
Prudential International Management Services Limited	OS	100.00%	
Prudential International Staff Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Investment (Luxembourg) 2 SARL	OS	100.00%	34-38, Avenue de la Liberté, L-1930, Luxembourg
Prudential Investments Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential IP Services Limited	OS	100.00%	
Prudential Life Assurance (Lao) Company Limited	OS	100.00%	Unit A, 6th Floor, Vientiane Plaza Hotel Office Building, Sailom Road, Hatsady Neua Village, Chanthabouly District, Vientiane Capital, Lao PDR
Prudential Life Assurance (Thailand) Public Company Limited	OS	99.93%	9/9 Sathorn Building, 20th-27th Floor, South Sathorn Road, Yannawa, Sahtorn, Bangkok 10120, Thailand
Prudential Life Assurance Kenya Limited	OS	100.00%	5th Ngong Avenue, Nairobi, Kenya
Prudential Life Assurance Zambia Limited	OS	100.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Life Insurance Ghana Limited	OS	100.00%	35 North Street, Accra, Ghana
Prudential Lifetime Mortgages Limited	OS PS	100.00% 100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Loan Investments 1 SARL	OS	100.00%	1, Rue Hildegard von Bingen, L - 1282 Luxembourg
Prudential Loan Investments GP SARL	OS	100.00%	
Prudential Loan Investments SCSp	OS	100.00%	
Prudential Mauritius Holdings Limited	OS	100.00%	Suite 450, 4th Floor, Barkly Wharf East, Le Caudan Waterfront, Port Louis, Mauritius
Prudential Mortgages Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Nominees Limited	OS	100.00%	
Prudential Pensions Limited	OS	100.00%	
Prudential Pensions Management Zambia Limited	OS	49.00%	Prudential House, Thabo Mbeki Road, Lusaka, Zambia
Prudential Polska sp. z o.o	OS	100.00%	02-670 Warszawa, Pulawska 182, Poland
Prudential Portfolio Management Group Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK

**D6 Investments in subsidiary undertakings, joint ventures and associates** continued

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Prudential Portfolio Managers (South Africa) (Pty) Limited	OS A Class OS	49.99% 75.00%	PO Box 44813, Claremont 7735, South Africa
Prudential Portfolio Managers Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Properties Trusty Pty Limited	OS	100.00%	Darling Park Tower 2, 201 Sussex Street, Sydney, NSW 2000, Australia
Prudential Property Holding Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Property Investment Managers Limited	OS	100.00%	
Prudential Property Investments Limited	OS PS	100.00% 100.00%	
Prudential Protect Limited	OS	100.00%	
Prudential Real Estate Investments 1 Limited	OS	100.00%	
Prudential Real Estate Investments 2 Limited	OS	100.00%	
Prudential Real Estate Investments 3 Limited	OS	100.00%	
Prudential Retirement Income Limited (In liquidation)	OS PS	100.00% 100.00%	c/o Mazars LLP, 90 St. Vincent Street, Glasgow, G2 5UB, UK
Prudential Services Asia Sdn. Bhd.	OS PS	100.00% 100.00%	Suite 1005, 10th Floor, Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
Prudential Services Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Services Singapore Pte. Ltd.	OS	100.00%	1 Wallich Street, #19-01 Guoco Tower, Singapore 078881
Prudential Singapore Holdings Pte. Limited	OS	100.00%	30 Cecil Street, #30-01 Prudential Tower, Singapore 049712
Prudential Staff Pensions Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Trustee Company Limited	OS	100.00%	
Prudential UK Real Estate General Partner Limited	OS	100.00%	
Prudential UK Real Estate LP	LPI	100.00%	
Prudential UK Real Estate Nominee 1 Limited	OS	100.00%	
Prudential UK Real Estate Nominee 2 Limited	OS	100.00%	
Prudential UK Services Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Prudential Unit Trusts Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prudential Venture Managers Limited	OS	100.00%	
Prudential Vietnam Assurance Private Limited	OS	100.00%	25th Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential Vietnam Finance Company Limited	OS	100.00%	23rd Floor, Saigon Trade Centre, 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam
Prudential/M&G UK Companies Financing Fund LP	LPI	34.42%	Laurence Pountney Hill, London, EC4R 0HH, UK
Prutec Limited	OS	100.00%	
PT. Eastspring Investments Indonesia	OS	99.95%	23rd Floor, Prudential Tower, Jl. Jendral Sudirman Kav. 79, 12910, Jakarta Selatan, Indonesia
PT. Prudential Life Assurance	OS	94.62%	
PVFC Financial Limited	OS	100.00%	13th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
PVM Partnerships Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Randolph Street LP	LPI	100.00%	2711 Centreville Road, Suite 400, Wilmington, DE 19808, USA
REALIC of Jacksonville Plans, Inc	OS	100.00%	1999 Bryan Street, Suite 900, Dallas, TX 75201, USA
Reksa Dana Eastspring IDR Fixed Income Fund (NDEIFF)	OS	100.00%	23rd Floor, Prudential Tower, Jl. Jendral Sudirman Kav. 79, 12910, Jakarta Selatan, Indonesia
Reksa Dana Eastspring Investments Cash Reserve	U	100.00%	
Reksa Dana Eastspring Investments IDR High Grade	OS	44.09%	
Reksa Dana Eastspring Investments Value Discovery	OS	89.60%	
Reksa Dana Eastspring Investments Yield Discovery	OS	79.21%	
Reksa Dana Syariah Eastspring Syariah Equity Islamic Asia Pacific USD	OS	99.90%	
Reksa Dana Syariah Eastspring Syariah Fixed Income Amanah	OS	96.82%	
Rhodium Investment Fund	OS	100.00%	10 Marina Boulevard, #32-01, Marina Bay Financial Centre, Singapore 018983
Rift GP 1 Limited	OS	100.00%	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
Rift GP 2 Limited	OS	100.00%	
ROP, Inc	OS	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
ScotAm Pension Trustees Limited	OS	100.00%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Finance plc	OS	100.00%	
Scottish Amicable Holdings Limited	OS	100.00%	

**Key to Classes of shares held**

LBG	Limited by Guarantee
LPI	Limited Partnership Interest
MI	Membership Interest
NSB	Non-stock basis
OS	Ordinary Shares
PI	Partnership Interest
PS	Preference Shares
U	Units

Name of entity	Classes of shares held	Proportion held	Registered office address and country of incorporation
Scottish Amicable Life Assurance Society	No share capital	100.00%	Craigforth, Stirling, FK9 4UE, UK
Scottish Amicable Pensions Investments Limited	OS	100.00%	
Scotts Spazio Pte. Ltd.	OS	45.00%	30 Cecil Street, #23-02, Prudential Tower, Singapore 049712
Sealand (No 1) Limited	OS	100.00%	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST
Sealand (No 2) Limited	OS	100.00%	
Sectordate Limited	OS	32.60%	5th Floor Cavendish House, 39 Waterloo Street, Birmingham, B2 5PP, UK
Selly Oak Shopping Park (General Partner) Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Selly Oak Shopping Park (Nominee 1) Limited	OS	100.00%	
Selly Oak Shopping Park (Nominee 2) Limited	OS	100.00%	
SII Investments, Inc	OS	100.00%	5555, Grande Market Drive, Appleton, WI 54912, USA
Silverfleet Capital 2004 LP	LPI	100.00%	1 Royal Plaza, St Peters Port, Guernsey, GY1 2HL
Silverfleet Capital 2005 LP	LPI	100.00%	
Silverfleet Capital 2006 LP	LPI	100.00%	
Silverfleet Capital 2008 LP	LPI	100.00%	
Silverfleet Capital 2009 LP	LPI	100.00%	
Silverfleet Capital 2011/12 LP	LPI	100.00%	
Silverfleet Capital II WPLF	LPI	100.00%	
Smithfield Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
SM, LLC	LPI	100.00%	1209 Orange Street, Wilmington, DE 19801, USA
Squire Capital I, LLC	MI	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Squire Capital II, LLC	OS	100.00%	
Squire Reassurance Company II, Inc	OS	100.00%	40600 Ann Arbor Road, East Suite 201, Plymouth, MI 48170, USA
Squire Reassurance Company, LLC	OS	100.00%	1 Corporate Way, Lansing, MI 48951, USA
Sri Han Suria Sdn. Bhd.	OS PS (A & B)	51.00% 100.00%	Suite 1005, 10th Floor Wisma Hamzah-Kwong Hing, No. 1 Leboh Ampang, 50100 Kuala Lumpur, Malaysia
St Edward Homes Limited	OS	50.00%	Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK
St Edwards Strand Partnership	OS	50.00%	
Stableview Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Staple Limited	OS	100.00%	3 Rajanakarn Building, 20th Floor, South Sathorn Road, Yannawa Subdistrict, Sathorn District, Bangkok, Thailand
Staple Nominees Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Thanachart Life Assurance Public Company Limited (In liquidation)	OS	99.93%	9/9 Sathorn Building, 25th Floor, South Sathorn Road, Yannawa, Sathorn, Bangkok 10120, Thailand
The Car Auction Unit Trust	OS	50.00%	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 2HT
The First British Fixed Trust Company Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
The Greenpark (Reading) LP	LPI	100.00%	
The Heights Management Company Limited	OS	50.00%	
The Hub (Witton) Management Company Limited (In liquidation)	OS	100.00%	
The St Edward Homes Partnership	OS	49.95%	Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK
The Strand Property Unit Trust	LPI	50.00%	Liberte house, 19-23 La Motte Street, St Helier, Jersey, JE2 4SY
The Two Rivers Trust	OS	50.00%	
Three Snowhill Birmingham SARL	OS	100.00%	5, rue Guillaume Kroll, L-1882, Luxembourg
Two Rivers LP	LPI	50.00%	Bow Bells House, 1 Bread Street, London, EC4M 9HH, UK
Two Snowhill Birmingham SARL	OS	100.00%	5, rue Guillaume Kroll, L-1882, Luxembourg
US Strategic Income Bond Fund D USD Acc	OS	96.36%	26, Boulevard Royal, L-2449, Luxembourg
VFL International Life Company SPC, Ltd.	OS	100.00%	171 Elgin Avenue, Grand Cayman, Cayman Islands
Warren Farm Office Village Limited (In liquidation)	OS	100.00%	c/o Mazars LLP, 45 Church Street, Birmingham, B3 2RT, UK
Wessex Gate Limited	OS	100.00%	Laurence Pountney Hill, London, EC4R 0HH, UK
Westwacker Limited	OS	100.00%	
Wynnefield Private Equity Partners I, LP	LPI	99.00%	1105 North Market Street, Suite 1300, Wilmington, DE 19801, USA
Wynnefield Private Equity Partners II, LP	LPI	99.00%	1209 Orange Street, Wilmington, DE 19801, USA
Zenith-Prudential Life Insurance Company Limited	OS	51.00%	Plot 280, Ajose Adeogun Street, Victoria Island, Nigeria

## E Further accounting policies

### E1 Other

#### Significant accounting policies

In addition to the critical accounting policies presented in note A3.1, the following detailed accounting policies are adopted by the Group to prepare the consolidated financial statements. These accounting policies are applied consistently for all years presented and normally are not subject to change unless new accounting standards, interpretations or amendments are introduced by the IASB.

#### (a) Basis of consolidation

The Group consolidates those investees it is deemed to control. The Group has control over an investee if all three of the following are met: (1) it has power over an investee; (2) it is exposed to, or has rights to, variable returns from its involvement with the investee; and (3) it has ability to use its power over the investee to affect its own returns.

#### (i) Subsidiaries

Subsidiaries are those investees that the Group controls. The majority of the Group's subsidiaries are corporate entities, but the Group's insurance operations also invest in a number of limited partnerships.

The Group performs a re-assessment of consolidation whenever there is a change in the substance of the relationship between the Group and an investee. Where the Group is deemed to control an entity it is treated as a subsidiary and its results, assets and liabilities are consolidated. Where the Group holds a minority share in an entity, with no control over the entity, the investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Entities consolidated by the Group include Qualifying Partnerships as defined under the UK Partnerships (Accounts) Regulations 2008 (the 'Partnerships Act'). Some of these limited partnerships have taken advantage of the exemption under regulation 7 of the Partnerships Act from the financial statements requirements. This is under regulations 4 to 6, on the basis that these limited partnerships are dealt with on a consolidated basis in these financial statements.

#### (ii) Joint ventures and associates

Joint ventures are joint arrangements arising from a contractual agreement whereby the Group and other investors have joint control of the net assets of the arrangement. In a number of these arrangements, the Group's share of the underlying net assets may be less than 50 per cent but the terms of the relevant agreement make it clear that control is jointly exercised between the Group and the third party. Associates are entities over which the Group has significant influence, but it does not control. Generally it is presumed that the Group has significant influence if it holds between 20 per cent and 50 per cent voting rights of the entity.

With the exception of those referred to below, the Group accounts for its investments in joint ventures and associates by using the equity method of accounting. The Group's share of profit or loss of its joint ventures and associates is recognised in the income statement and its share of movements in other comprehensive income is recognised in other comprehensive income. The equity method of accounting does not apply to investments in associates and joint ventures held by the Group's insurance or investment funds. This includes venture capital business, mutual funds and unit trusts and which, as allowed by IAS 28, 'Investments in Associates and Joint Ventures', are carried at fair value through profit or loss.

#### (iii) Structured entities

Structured entities are those that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Voting rights relate to administrative tasks. Relevant activities are directed by means of contractual arrangements. The Group invests in structured entities such as:

- Open-Ended Investment Companies (OEICs);
- Unit Trusts (UTs);
- Limited partnerships;
- Variable interest entities;
- Investment vehicles within separate accounts offered through variable annuities;
- Collateralised debt obligations;
- Mortgage-backed securities; and
- Similar asset-backed securities.

#### Open-ended investment companies and unit trusts

The Group invests in OEICs and UTs, which invest mainly in equities, bonds, cash and cash equivalents, and properties. The Group's percentage ownership in these entities can fluctuate on a daily basis according to the participation of the Group and other investors in them.

- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity exceeds 50 per cent, the Group is judged to have control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is between 20 per cent and 50 per cent, the facts and circumstances of the Group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the Group has control over the entity.
- Where the entity is managed by a Group asset manager, and the Group's ownership holding in the entity is less than 20 per cent, the Group is judged to not have control over the entity.
- Where the entity is managed by an asset manager outside the Group, an assessment is made of whether the Group has existing rights that gives it the ability to direct the current activities of the entity and therefore control the entity. In assessing the Group's ability to direct an entity, the Group considers its ability relative to other investors. The Group has a limited number of OEICs and UTs where it considers it has such ability.

Where the Group is deemed to control these entities, they are treated as a subsidiary and are consolidated, with the interests of investors other than the Group being classified as liabilities, and appear as net asset value attributable to unit holders of consolidated unit trusts and similar funds.

Where the Group does not control these entities (as it is deemed to be acting as an agent) and they do not meet the definition of associates, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

Where the Group's asset manager sets up OEICs and UTs as part of asset management operations, the Group's interest is limited to the administration fees charged to manage the assets of such entities. With no participation in these entities, the Group does not retain risks associated with OEICs and UTs. For these open-ended investment companies and unit trusts, the Group is not deemed to control the entities but to be acting as an agent.

The Group generates returns and retains the ownership risks in investment vehicles commensurate to its participation and does not have any further exposure to the residual risks of these investment vehicles.

### Jackson's separate account assets

These are investment vehicles that invest contract holders' premiums in equity, fixed income, bonds and money market mutual funds. The contract holder retains the underlying returns and the ownership risks related to the underlying investments. The shareholder's economic interest in separate accounts is limited to the administrative fees charged. The separate accounts are set up as separate regulated entities governed by a Board of Governors or trustees for which the majority of the members are independent of Jackson or any affiliated entity. The independent members are responsible for any decision making that impacts contract holders' interest and govern the operational activities of the entities' advisers, including asset managers. Accordingly, the Group does not control these vehicles. These investments are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

### Limited partnerships

The Group's insurance operations invest in a number of limited partnerships, either directly or through unit trusts, through a mix of capital and loans. These limited partnerships are managed by general partners, in which the Group holds equity. Such interest in general partners and limited partnerships provide the Group with voting and similar rights to participate in the governance framework of the relevant activities in which limited partnerships are engaged in. Accounting for the limited partnerships as subsidiaries, joint ventures, associates or other financial investments depends on the terms of each partnership agreement and the shareholdings in the general partners.

### Other structured entities

The Group holds investments in mortgage-backed securities, collateralised debt obligations and similar asset-backed securities, the majority of which are actively traded in a liquid market.

The Group consolidates the vehicles that hold the investments where the Group is deemed to control the vehicles. When assessing control over the vehicles, the factors considered include the purpose and design of the vehicle, the Group's exposure to the variability of returns and the scope of the Group's ability to direct the relevant activities of the vehicle including any kick-out or removal rights that are held by third parties. The outcome of the control assessment is dependent on the terms and conditions of the respective individual arrangements.

The majority of such vehicles are not consolidated. In these cases the Group is not the sponsor of the vehicles in which it holds investments and has no administrative rights over the vehicles' activities. The Group generates returns and retains the ownership risks commensurate to its holding and its exposure to the investments. Accordingly the Group does not have power over the relevant activities of such vehicles and all are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position.

The table below provides aggregate carrying amounts of the investments in unconsolidated structured entities reported in the Group's statement of financial position:

	2017 £m			2016 £m		
	OEICs/UTs	Separate account assets	Other structured entities	OEICs/UTs	Separate account assets	Other structured entities
<b>Statement of financial position line items</b>						
Equity securities and portfolio holdings in unit trusts	20,718	130,528	–	16,489	120,411	–
Debt securities	–	–	10,894	–	–	12,220
<b>Total</b>	<b>20,718</b>	<b>130,528</b>	<b>10,894</b>	<b>16,489</b>	<b>120,411</b>	<b>12,220</b>

The Group generates returns and retains the ownership risks in these investments commensurate to its participation and does not have any further exposure to the residual risks or losses of the investments or the vehicles in which it holds investments.

As at 31 December 2017, the Group does not have an agreement, contractual or otherwise, or intention to provide financial support to structured entities that could expose the Group to a loss.

## E Further accounting policies continued

### E1 Other continued

#### Significant accounting policies continued

##### (b) Reinsurance

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. The treatment of any gains or losses arising on the purchase of reinsurance contracts is dependent on the underlying accounting basis of the entity concerned.

##### (c) Earned premiums, policy fees and claims paid

Premiums for conventional with-profits policies and other protection type insurance policies are recognised as revenue when due. Premiums and annuity considerations for linked policies, unitised with-profits and other investment type policies are recognised as revenue when received or, in the case of unitised or unit-linked policies, when units are issued. These amounts exclude premium taxes and similar duties where Prudential collects and settles taxes borne by the customer.

Policy fees charged on linked and unitised with-profits policies for mortality, asset management and policy administration are recognised as revenue when related services are provided.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are recorded as charges on the policy maturity date. Annuity claims are recorded when each annuity instalment becomes due for payment. Surrenders are charged to the income statement when paid and death claims are recorded when notified.

##### (d) Investment return

Investment return included in the income statement principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit or loss, and realised gains and losses (including impairment losses) on items held at amortised cost and Jackson's debt securities designated as available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as available-for-sale are recorded in other comprehensive income. Interest income is recognised as it accrues, taking into account the effective yield on investments. Dividends on equity securities are recognised on the ex-dividend date and rental income is recognised on an accrual basis.

##### (e) Financial investments other than instruments classified as long-term business contracts

###### (i) Investment classification

The Group holds financial investments in accordance with IAS 39, whereby subject to specific criteria, financial instruments are required to be accounted for under one of the following categories:

- Financial assets and liabilities at fair value through profit or loss – this comprises assets and liabilities designated by management as fair value through profit or loss on inception and derivatives that are held for trading. These investments are measured at fair value with all changes thereon being recognised in investment return in the income statement;
- Financial investments on an available-for-sale basis – this comprises assets that are designated by management as available-for-sale and/or do not fall into any of the other categories. These assets are initially recognised at fair value plus attributable transaction costs. Available-for-sale assets are subsequently measured at fair value. Interest income is recognised on an effective interest basis in the income statement. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. Except for foreign exchange gains and losses on debt securities, which are included in the income statement, unrealised gains and losses are recognised in other comprehensive income. Upon disposal or impairment, accumulated unrealised gains and losses are transferred from other comprehensive income to the income statement as realised gains or losses; and
- Loans and receivables – except for those designated as at fair value through profit or loss or available-for-sale, these instruments comprise non-quoted investments that have fixed or determinable payments. These instruments include loans collateralised by mortgages, deposits, loans to policyholders and other unsecured loans and receivables. These investments are initially recognised at fair value plus transaction costs. Subsequently, these instruments are carried at amortised cost using the effective interest method.

The Group uses the trade date method to account for regular purchases and sales of financial assets. See note A3.1 for further details of valuation of financial investments.

**(ii) Derivatives and hedge accounting**

Derivative financial instruments are used to reduce or manage investment, interest rate and currency exposures, to facilitate efficient portfolio management and for investment purposes.

The Group may designate certain derivatives as hedges.

For hedges of net investments in foreign operations, the effective portion of any change in fair value of derivatives or other financial instruments designated as net investment hedges is recognised in other comprehensive income. The ineffective portion of changes in the fair value of the hedging instrument is recorded in the income statement.

The Group does not regularly seek to apply fair value or cash flow hedging treatment under IAS 39. The Group has no fair value and cash flows hedges under IAS 39 at 31 December 2017 and 2016.

All derivatives that are not designated as hedging instruments are carried at fair value, with movements in fair value being recorded in the income statement.

The primary areas of the Group's continuing operations where derivative instruments are held are the UK with-profits funds and annuity business, and Jackson.

For UK with-profits funds the derivative programme is used for the purposes of efficient portfolio management or reduction in investment risk.

For shareholder-backed UK annuity business the derivatives are held to contribute to the matching as far as practical, of asset returns and duration with those of liabilities to policyholders. The carrying value of these liabilities is sensitive to the return on the matching financial assets including derivatives held.

For Jackson's derivative programme see note A3.1.

**(iii) Embedded derivatives**

Embedded derivatives are present in host contracts issued by various Group companies, in particular Jackson. They are embedded within other non-derivative host financial instruments and insurance contracts to create hybrid instruments. Embedded derivatives meeting the definition of an insurance contract are accounted for under IFRS 4. Where economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value with the changes in fair value recognised in the income statement, the embedded derivative is bifurcated and carried at fair value as a derivative measured in accordance with IAS 39.

In addition, the Group applies the option under IFRS 4 to not separate and fair value surrender options embedded in host contracts and with-profits investment contracts whose strike price is either a fixed amount or a fixed amount plus interest.

**(iv) Securities lending and reverse repurchase agreements**

The Group is party to various securities lending agreements (including repurchase agreements) under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100 per cent of the fair value of securities loaned is required from all securities' borrowers and typically consists of cash, debt securities, equity securities or letters of credit.

In cases where the Group takes possession of the collateral under its securities lending programme, the collateral, and corresponding obligation to return such collateral, are recognised in the consolidated statement of financial position.

The Group is also party to various reverse repurchase agreements under which securities are purchased from third parties with an obligation to resell the securities. The securities are not recognised as investments in the statement of financial position.

**(v) Derecognition of financial assets and liabilities**

The Group's policy is to derecognise financial assets when it is deemed that substantially all the risks and rewards of ownership have been transferred.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

**(vi) Financial liabilities designated at fair value through profit or loss**

Consistent with the Group's risk management and investment strategy and the nature of the products concerned, the Group has designated under IAS 39 classification certain financial liabilities at fair value through profit or loss as these instruments are managed and their performance evaluated on a fair value basis. These instruments include liabilities related to consolidated collateralised debt obligations and net assets attributable to unit holders of consolidated unit trusts and similar funds.

## E Further accounting policies continued

### E1 Other continued

#### Significant accounting policies continued

##### (f) Segments

Under IFRS 8 'Operating Segments', the Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee which is the Group's chief operating decision maker.

The operating segments identified by the Group reflect the Group's organisational structure, which, following a reorganisation during the year, is by business units Asia, US and UK and Europe. All business units contain both insurance and asset management operations.

Further information on the Group's operating segments is provided in note B1.3.

##### (g) Borrowings

Although initially recognised at fair value, net of transaction costs, borrowings, excluding liabilities of consolidated collateralised debt obligations, are subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds (net of related issue costs) is amortised through the income statement to the date of maturity or for hybrid debt, over the expected life of the instrument.

##### (h) Investment properties

Investments in leasehold and freehold properties not for occupation by the Group, including properties under development for future use as investment properties, are carried at fair value, with changes in fair value included in the income statement. Properties are valued annually either by the Group's qualified surveyors or by taking into consideration the advice of professional external valuers using the Royal Institution of Chartered Surveyors valuation standards. Each property is externally valued at least once every three years.

Leases of investment property where the Group has substantially all the risks and rewards of ownership are classified as finance leases (leasehold property). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

##### (i) Pension schemes

For the Group's defined benefit schemes, if the present value of the defined benefit obligation exceeds the fair value of the scheme assets, then a liability is recorded in the Group's statement of financial position. By contrast, if the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company, support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a constructive obligation for the Company to pay deficit funding, this is also recognised such that the financial position recorded for the scheme reflects the higher of any underlying IAS 19 deficit and the obligation for deficit funding.

The Group utilises the projected unit credit method to calculate the defined benefit obligation. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Estimated future cash flows are then discounted at a high-quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The plan assets of the Group's pension schemes include several insurance contracts that have been issued by the Group.

These assets are excluded from plan assets in determining the pension surplus or deficit recognised in the consolidated statement of financial position.

The aggregate of the actuarially determined service costs of the currently employed personnel, and the net interest on the net defined benefit liability (asset) at the start of the period, is charged to the income statement. Actuarial and other gains and losses as a result of changes in assumptions or experience variances are recognised as other comprehensive income.

Contributions to the Group's defined contribution schemes are expensed when due.

##### (j) Share-based payments and related movements in own shares

The Group offers share award and option plans for certain key employees and a Save As You Earn plan for all UK and certain overseas employees. Shares held in trust relating to these plans are conditionally gifted to employees.

The compensation expense charged to the income statement is primarily based upon the fair value of the options granted, the vesting period and the vesting conditions.

The Company has established trusts to facilitate the delivery of Prudential plc shares under employee incentive plans and savings-related share option schemes. The cost to the Company of acquiring these treasury shares held in trusts is shown as a deduction from shareholders' equity.



**(k) Tax**

Prudential is subject to tax in numerous jurisdictions and the calculation of the total tax charge inherently involves a degree of estimation and judgement. Current tax expense is charged or credited based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year and adjustments made in relation to prior years. The positions taken in tax returns where applicable tax regulation is subject to interpretation are recognised in full in the determination of the tax charge in the financial statements if the Group considers that it is probable that the taxation authority will accept those positions. Otherwise, provisions are established based on management's estimate and judgement of the likely amount of the liability, or recovery, by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple outcomes.

The total tax charge includes tax expense attributable to both policyholders and shareholders. The tax expense attributable to policyholders comprises the tax on the income of the consolidated with-profits and unit-linked funds. In certain jurisdictions, such as the UK, life insurance companies are taxed on both their shareholders' profits and on their policyholders' insurance and investment returns on certain insurance and investment products. Although both types of tax are included in the total tax charge in the Group's consolidated income statement, they are presented separately in the consolidated income statement to provide the most relevant information about tax that the Group pays on its profits.

Deferred taxes are provided under the liability method for all relevant temporary differences. IAS 12 'Income Taxes' does not require all temporary differences to be provided for, in particular, the Group does not provide for deferred tax on undistributed earnings of subsidiaries where the Group is able to control the timing of the distribution and the temporary difference created is not expected to reverse in the foreseeable future. Deferred tax assets are only recognised when it is more likely than not that future taxable profits will be available against which these losses can be utilised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

**(l) Business acquisitions and disposals**

Business acquisitions are accounted for by applying the purchase method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired entity is recorded as goodwill. Expenses related to acquiring new subsidiaries are charged to the income statement in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

Income and expenses of entities sold during the period are included in the income statement up to the date of disposal. The gain or loss on disposal is calculated as the difference between sale proceeds net of selling costs, less the net assets of the entity at the date of disposal, adjusted for foreign exchange movements attaching to the sold entity that are required to be recycled to the income statement under IAS 21.

**(m) Goodwill**

Goodwill arising on acquisitions of subsidiaries and businesses is capitalised and carried on the Group statement of financial position as an intangible asset at initial value less any accumulated impairment losses. Goodwill impairment testing is conducted annually and when there is an indication of impairment. For the purposes of impairment testing, goodwill is allocated to cash generating units. For further details see note C5(a).

**(n) Intangible assets**

Intangible assets acquired on the purchase of a subsidiary or portfolio of contracts are measured at fair value on acquisition. Deferred acquisition costs are accounted for as described in note A3.1(c). Other intangible assets, such as distribution rights and software, are valued initially at the price paid to acquire them and are subsequently carried at cost less amortisation and any accumulated impairment losses. Distribution rights relate to fees paid under bancassurance partnership arrangements for bank distribution of products for the term of the contract. Amounts for distribution rights are amortised on a basis to reflect the pattern in which the future economic benefits are expected to be consumed by reference to new business production levels. The same principles apply to determining the amortisation method for other intangible assets unless the pattern cannot be determined reliably, in which case a straight line method is applied. Amortisation of intangible assets is charged to the 'acquisition costs and other expenditure' line in the consolidated income statement. Impairment testing is conducted when there is an indication of impairment.

**(o) Cash and cash equivalents**

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition.

**(p) Shareholders' dividends**

Interim 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.

## E Further accounting policies continued

### E1 Other continued

#### Significant accounting policies continued

##### (q) Share capital

Shares are classified as equity when their terms do not create an obligation to transfer assets. The difference between the proceeds received on issue of the shares, net of share issue costs, and the nominal value of the shares issued, is credited to share premium. Where the Company purchases shares for the purposes of employee incentive plans, the consideration paid, net of issue costs, is deducted from retained earnings. Upon issue or sale any consideration received is credited to retained earnings net of related costs.

##### (r) Foreign exchange

The Group's consolidated financial statements are presented in pounds sterling, the Group's presentation currency. Accordingly, the results and financial position of foreign subsidiaries must be translated into the presentation currency of the Group from their functional currencies, ie the currency of the primary economic environment in which the entity operates. All assets and liabilities of foreign subsidiaries are converted at year end exchange rates while all income and expenses are converted at average exchange rates where this is a reasonable approximation of the rates prevailing on transaction dates. The impact of these currency translations is recorded as a separate component in the statement of comprehensive income.

Foreign currency borrowings that are used to provide a hedge against Group equity investments in overseas subsidiaries are translated at year end exchange rates and movements recognised in other comprehensive income. Other foreign currency monetary items are translated at year end exchange rates with changes recognised in the income statement.

Foreign currency transactions are translated at the spot rate prevailing at the time.

##### (s) Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in employee share trusts and consolidated unit trusts and OEICs, which are treated as cancelled.

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group's only class of potentially dilutive ordinary shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. No adjustment is made if the impact is anti-dilutive overall.

# Statement of financial position of the parent company

31 December	Note	2017 £m	2016 £m
<b>Fixed assets</b>			
Investments in subsidiary undertakings	5	10,798	10,859
<b>Current assets</b>			
Debtors:			
Amounts owed by subsidiary undertakings		4,732	5,798
Other debtors		5	11
Tax recoverable		40	44
Derivative assets	6	5	4
Pension asset	7	71	48
Cash at bank and in hand		143	24
		4,996	5,929
<b>Liabilities: amounts falling due within one year</b>			
Commercial paper	8	(485)	(1,052)
Other borrowings	8	(600)	–
Derivative liabilities	6	(443)	(447)
Amounts owed to subsidiary undertakings		(715)	(773)
Tax payable		(10)	(10)
Deferred tax liability	9	(12)	(9)
Accruals and deferred income		(79)	(72)
		(2,344)	(2,363)
<b>Net current assets</b>		2,652	3,566
<b>Total assets less current liabilities</b>		13,450	14,425
<b>Liabilities: amounts falling due after more than one year</b>			
Subordinated liabilities	8	(5,272)	(5,772)
Debenture loans	8	(549)	(549)
Other borrowings	8	–	(599)
		(5,821)	(6,920)
<b>Total net assets</b>		7,629	7,505
<b>Capital and reserves</b>			
Share capital	10	129	129
Share premium	10	1,948	1,927
Profit and loss account	11	5,552	5,449
<b>Shareholders' funds</b>		7,629	7,505
<b>Profit for the year</b>		1,235	840

The financial statements of the parent company on pages 305 to 313 were approved by the Board of Directors on 14 March 2018 and signed on its behalf.



**Paul Manduca**  
Chairman



**Mike Wells**  
Group Chief Executive



**Mark FitzPatrick**  
Chief Financial Officer

## Statement of changes in equity of the parent company

	Share capital £m	Share premium £m	Profit and loss account £m	Total equity £m
Balance at 1 January 2016	128	1,915	5,866	7,909
<b>Total comprehensive income for the year</b>				
Profit for the year	–	–	840	840
Actuarial gains recognised in respect of the defined benefit pension scheme	–	–	4	4
Total comprehensive income for the year	–	–	844	844
<b>Transactions with owners, recorded directly in equity</b>				
New share capital subscribed	1	12	–	13
Share based payment transactions	–	–	6	6
Dividends	–	–	(1,267)	(1,267)
Total contributions by and distributions to owners	1	12	(1,261)	(1,248)
<b>Balance at 31 December 2016</b>	<b>129</b>	<b>1,927</b>	<b>5,449</b>	<b>7,505</b>
Balance at 1 January 2017	129	1,927	5,449	7,505
<b>Total comprehensive income for the year</b>				
Profit for the year	–	–	1,235	1,235
Actuarial gains recognised in respect of the defined benefit pension scheme	–	–	28	28
Total comprehensive income for the year	–	–	1,263	1,263
<b>Transactions with owners, recorded directly in equity</b>				
New share capital subscribed	–	21	–	21
Share based payment transactions	–	–	(1)	(1)
Dividends	–	–	(1,159)	(1,159)
Total contributions by and distributions to owners	–	21	(1,160)	(1,139)
<b>Balance at 31 December 2017</b>	<b>129</b>	<b>1,948</b>	<b>5,552</b>	<b>7,629</b>

## 1 Nature of operations

Prudential plc (the Company) is a parent holding company. The Company together with its subsidiaries (collectively, the Group) is an international financial services group with operations in Asia, the US, UK and Europe and Africa. In Asia, the Group has operations in Hong Kong, Indonesia, Malaysia, Singapore and other markets. In the US, the Group's principal subsidiary is Jackson National Life Insurance Company. In UK and Europe, the Group operates through its subsidiaries, primarily The Prudential Assurance Company Limited and M&G Investment Management Limited. In August 2017 the Company announced that it was bringing together M&G with Prudential's UK and European savings and retirement business to form M&G Prudential.

## 2 Basis of preparation

The financial statements of the Company, which comprise the statement of financial position, statement of changes in equity and related notes, are prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and Part 15 of the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and endorsed by the EU, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company has also taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries within the Prudential Group;
- Disclosure in respect of capital management; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 'Share Based Payments' in respect of Group-settled share-based payments; and
- Disclosure required by IFRS 7 'Financial Instrument Disclosures' and IFRS 13 'Fair Value Measurement'.

In 2017, the Company adopted Amendments to IAS 12, 'Income Taxes' (recognition of deferred tax assets) and Annual Improvements to IFRSs 2014-2016 Cycle. Their adoption had no material impact on the financial statements of the Company.

The accounting policies set out in note 3 below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

## 3 Significant accounting policies

### Investments in subsidiary undertakings

Investments in subsidiary undertakings are shown at cost less impairment.

### Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are shown at cost, less provisions.

### Derivatives

Derivative financial instruments are held to manage certain macro-economic exposures. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

### Borrowings

Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity or, for subordinated debt, over the expected life of the instrument.

### Dividends

Interim dividends are recorded in the period in which they are paid.

## 3 Significant accounting policies continued

### Share premium

The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

### Foreign currency translation

Assets and liabilities denominated in foreign currencies, including borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries, are translated at year end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

### Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable amounts for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of IAS 12, 'Income Taxes'. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that future taxable profits will be available against which these losses can be utilised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

### Pensions

The Company assumes a portion of the pension surplus or deficit of the Group's main pension scheme, the Prudential Staff Pension Scheme ('PSPS'). The Company applies the requirements of IAS 19 'Employee Benefit' (as revised in 2011) for the accounting of its interest in the PSPS surplus or deficit. Further details are disclosed in note 7.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond yield, adjusted to allow for the difference in duration between the bond index and the pension liabilities, where appropriate, to determine their present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the net income (interest) on the net scheme assets (liabilities) at the start of the period, is recognised in the profit or loss account. Actuarial gains and losses as a result of the changes in assumptions, experience variances or the return on scheme assets excluding amounts included in the net deferred benefit asset (liability) are recorded in other comprehensive income.

### Share-based payments

The Group offers share award and option plans for certain key employees and a Save As You Earn ('SAYE') plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled plans with a few cash-settled plans.

Under IFRS 2 'Share-based payment', where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

#### 4 Reconciliation from the FRS 101 parent company results to the IFRS Group results

The parent company financial statements are prepared in accordance with FRS 101 and the Group financial statements are prepared in accordance with IFRS as issued by the IASB and endorsed by the EU. At 31 December 2017, there were no differences between FRS 101 and IFRS as issued by the IASB and endorsed by the EU in terms of their application to the parent company.

The tables below provide a reconciliation between the FRS 101 parent company results and the IFRS Group results.

	2017 £m	2016 £m
<b>Profit after tax</b>		
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with FRS 101 and IFRS	1,235	840
Share in the IFRS result of the Group, net of distributions to the Company*	1,155	1,081
<b>Profit after tax of the Group attributable to shareholders in accordance with IFRS</b>	<b>2,390</b>	<b>1,921</b>
	2017 £m	2016 £m
<b>Net equity</b>		
Shareholders' equity of the Company in accordance with FRS 101 and IFRS	7,629	7,505
Share in the IFRS net equity of the Group*	8,458	7,161
<b>Shareholders' equity of the Group in accordance with IFRS</b>	<b>16,087</b>	<b>14,666</b>

\* The 'share in the IFRS result and net equity of the Group' lines represent the parent company's equity in the earnings and net assets of its subsidiaries and associates.

The profit for the financial year of the Company in accordance with IFRS includes dividends received in the year from subsidiary undertakings of £1,685 million and £1,318 million for the years ended 31 December 2017 and 2016, respectively.

As stated in note 3, under FRS 101, the Company accounts for its investments in subsidiary undertakings at cost less impairment. For the purpose of this reconciliation, no adjustment is made to the Company in respect of any valuation adjustments to shares in subsidiary undertakings that would be eliminated on consolidation.

#### 5 Investments in subsidiary undertakings

	2017 £m	2016 £m
<b>At 1 January</b>	<b>10,859</b>	<b>12,514</b>
Liquidation of subsidiary undertakings	–	(1,600)
Other movements	(61)	(55)
<b>At 31 December</b>	<b>10,798</b>	<b>10,859</b>

The liquidation in 2016 related to a central finance subsidiary in order to simplify the Group's corporate structure. Other movements comprise £6 million (2016: £6 million) in respect of share-based payments, reflecting the value of payments settled by the Company for employees of its subsidiary undertakings, less £67 million (2016: £61 million) relating to cash received from subsidiaries in respect of share awards.

Subsidiary undertakings of the Company at 31 December 2017 are listed in note D6 of the Group financial statements.

#### 6 Derivative financial instruments

	2017 £m		2016 £m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Cross-currency swap	5	–	4	–
Inflation-linked swap	–	443	–	447
<b>Total</b>	<b>5</b>	<b>443</b>	<b>4</b>	<b>447</b>

Derivative financial instruments are held to manage certain macro-economic exposures. The change in fair value of the derivative financial instruments of the Company was a gain before tax of £5 million (2016: loss of £122 million).

## Notes on the parent company financial statements continued

### 7 Pension scheme financial position

The majority of UK Prudential staff are members of the Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (the Scheme) which is primarily a closed defined benefit scheme.

At 31 December 2005, the allocation of surpluses and deficits attaching to the Scheme between the Company and the unallocated surplus of The Prudential Assurance Company Limited (PAC) with-profits fund was apportioned in the ratio 30/70 following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2017. The IAS 19 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity.

The last completed triennial actuarial valuation of the Scheme was as at 5 April 2014, which was finalised in 2015. The triennial valuation for the Scheme as at 5 April 2017 is ongoing and expected to be finalised in the second quarter of 2018. Further details on the results of this valuation and the total employer contributions to the Scheme for the year are provided in note C9 of the Group financial statements, together with the key assumptions adopted, including mortality assumptions.

A description of the regulatory framework in which the Scheme operates, the governance of the Scheme, and the risks to which the Scheme exposes the Company is provided in note C9. The most recent full valuation has been updated to 31 December 2017, applying the principles prescribed by IAS 19. The actuarial assumptions used in determining the IAS 19 benefit obligations and the net periodic costs and sensitivity of IAS 19 benefit obligation to changes in the actuarial assumptions are also provided in note C9.

The assets and liabilities of the Scheme were:

	31 Dec 2017 £m			31 Dec 2016 £m		
	Quoted prices in an active market	Other	Total	Quoted prices in an active market	Other	Total
<b>Scheme assets:</b>						
Equities						
UK	9	–	9	7	11	18
Overseas	216	10	226	284	9	293
Bonds*						
Government	5,040	–	5,040	5,411	–	5,411
Corporate	1,430	61	1,491	1,125	44	1,169
Asset-backed securities	156	8	164	142	2	144
Properties	–	140	140	–	71	71
Derivatives	188	–	188	252	–	252
Other assets	192	24	216	269	–	269
Fair value of Scheme assets	7,231	243	7,474	7,490	137	7,627
Present value of benefit obligations			(6,753)			(6,910)
Underlying surplus in the Scheme			721			717
Effect of the application of IFRIC 14 for de-recognition of surplus			(485)			(558)
Surplus in the Scheme			236			159
Surplus in the Scheme recognised by the Company†			71			48

\* 93 per cent (2016: 96 per cent) of the bonds are investment graded.

† The surplus in the Scheme recognised in the balance sheet of the Company represents the amount that is recoverable through reduced future contributions and is net of the apportionment to the PAC with-profits fund.



The changes in the fair value of the underlying Scheme assets and the present value of the underlying benefit obligations are as follows:

	2017 £m				
	Fair value of Scheme assets	Present value of benefit obligations note (i)	Net surplus without the effect of IFRIC 14	Effect of IFRIC 14 for de-recognition of surplus	IAS 19 basis net surplus
Balance at 1 January	7,627	(6,910)	717	(558)	159
Current service cost	–	(26)	(26)	–	(26)
Net interest income (cost)	193	(175)	18	(14)	4
Administration expenses	(6)	–	(6)	–	(6)
Actuarial gains (losses) note (ii)	40	(33)	7	87	94
Contributions paid by the employer note (iii)	11	–	11	–	11
Contributions paid by the employee	–	–	–	–	–
Benefits paid	(391)	391	–	–	–
<b>Balance at 31 December</b>	<b>7,474</b>	<b>(6,753)</b>	<b>721</b>	<b>(485)</b>	<b>236</b>

	2016 £m				
	Fair value of Scheme assets	Present value of benefit obligations note (i)	Net surplus without the effect of IFRIC 14	Effect of IFRIC 14 for de-recognition of surplus	IAS 19 basis net surplus
Balance at 1 January	6,727	(5,758)	969	(800)	169
Current service cost	–	(19)	(19)	–	(19)
Net interest income (cost)	250	(213)	37	(32)	5
Administration expenses	(4)	–	(4)	–	(4)
Actuarial gains (losses) note (ii)	949	(1,226)	(277)	274	(3)
Contributions paid by the employer note (iii)	11	–	11	–	11
Contributions paid by the employee	1	(1)	–	–	–
Benefits paid	(307)	307	–	–	–
<b>Balance at 31 December</b>	<b>7,627</b>	<b>(6,910)</b>	<b>717</b>	<b>(558)</b>	<b>159</b>

#### Notes

(i) The weighted average duration of the benefit obligations of the Scheme is 17 years (2016: 18 years). The following table provides an expected maturity analysis of the undiscounted benefit obligations as at 31 December:

£m	1 year or less	After 1 year to 5 years	After 5 years to 10 years	After 10 years to 15 years	After 15 years to 20 years	Over 20 years	Total
2017	238	1,030	1,445	1,452	1,375	5,554	11,094
2016	227	1,013	1,439	1,474	1,407	5,930	11,490

(ii) The actuarial gains attributable to policyholders and shareholders are analysed as follows:

	2017 £m	2016 £m
<b>Return on Scheme assets excluding interest income*</b>	<b>40</b>	<b>949</b>
<b>Actuarial gains (losses)</b>		
Experience gains on Scheme liabilities	70	87
Actuarial (losses) – demographic assumptions	(10)	(32)
Actuarial (losses) – financial assumptions	(93)	(1,281)
	(33)	(1,226)
Total actuarial gains (losses) without the effect of IFRIC 14	7	(277)
Actuarial gains attributable to the Company before tax†	34	4

\* The total return on Scheme assets in 2017 was a gain of £233 million (2016: £1,199 million).

† Actuarial gains attributable to the Company are net of the apportionment to the PAC with-profits fund and are related to the surplus recognised in the balance sheet of the Company. In 2017, the gains included a credit of £31 million (2016: £87 million) for the adjustment to the unrecognised portion of surplus. The gains after tax of £28 million (2016: £4 million) are recorded in other comprehensive income.

(iii) Employer contributions to be paid into the Scheme for the year ending 31 December 2018 are expected to amount to £10 million, comprising ongoing service contributions and expenses.

# Notes on the parent company financial statements continued

## 8 Borrowings

	Core structural borrowings		Other borrowings		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Core structural borrowings <sup>note (i)</sup>						
Subordinated liabilities <sup>note (ii)</sup>	5,272	5,772	–	–	5,272	5,772
Debenture loans	549	549	–	–	549	549
	5,821	6,321	–	–	5,821	6,321
Other borrowings: <sup>note (iii)</sup>						
Commercial paper	–	–	485	1,052	485	1,052
Medium Term Notes 2018	–	–	600	599	600	599
Total borrowings	5,821	6,321	1,085	1,651	6,906	7,972
Borrowings are repayable as follows:						
Within 1 year	–	–	1,085	1,052	1,085	1,052
Between 1 and 5 years	–	–	–	599	–	599
After 5 years	5,821	6,321	–	–	5,821	6,321
	5,821	6,321	1,085	1,651	6,906	7,972

### Notes

- (i) Further details on the core structural borrowings of the Company are provided in note C6.1 of the Group financial statements.  
(ii) The interests of the holders of the subordinated liabilities are subordinate to the entitlements of other creditors of the Company.  
(iii) These borrowings support a short-term fixed income securities programme.

## 9 Deferred tax liability

Deferred tax liability	2017 £m	2016 £m
Short-term temporary differences related to pension scheme	(12)	(9)
Total	(12)	(9)

The reduction in the UK corporation tax rate to 17 per cent from 1 April 2020 was substantively enacted on 6 September 2016 and did not have a material impact on the financial statements for the year ended 31 December 2017.

## 10 Share capital and share premium

A summary of the ordinary shares in issue and the options outstanding to subscribe for the Company's shares at 31 December 2017 is set out in note C10 of the Group financial statements.

## 11 Retained profit of the Company

Retained profit at 31 December 2017 amounted to £5,552 million (2016: £5,449 million). The retained profit includes distributable reserves of £3,066 million and non-distributable reserves of £2,486 million. The non-distributable reserves comprise £2,405 million relating to gains made by intermediate holding companies following the transfer at fair value of certain subsidiaries to other parts of the Group as part of internal restructuring exercises in previous years and £81 million of share-based payment reserves. The amount of £2,405 million is not able to be regarded as part of the distributable reserves of the parent company because the gains relate to intra-group transactions.

Under English company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and non-distributable reserves (such as the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate.

The retained profit of the Company is substantially generated from dividend income received from subsidiaries. The Group segmental analysis illustrates the generation of profit across the Group (see note B1 of the Group financial statements). The Group and its subsidiaries are subject to local regulatory minimum capital requirements, as set out in note C12 of the Group financial statements. A number of the principal risks set out in the 'Report on the risks facing our business and how these are managed' could impact the generation of profit in the Group's subsidiaries in the future and hence impact their ability to pay dividends in the future.

In determining the dividend payment in any year the directors follow the Group dividend policy described in the Chief Financial Officer's report section of this Annual Report. The directors consider the Company's ability to pay current and future dividends twice a year by reference to the Company's business plan and certain stressed scenarios.

## 12 Other information

- Information on directors' remuneration is given in the directors' remuneration report section of this Annual Report and note B2.3 of the Group financial statements.
- Information on transactions of the directors with the Group is given in note D4 of the Group financial statements.
- The Company employs no staff.
- Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.1 million (2016: £0.1 million) and for other services were £0.1 million (2016: £0.1 million).
- In certain instances, the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

## 13 Post balance sheet events

The second interim ordinary dividend for the year ended 31 December 2017, which was approved by the Board of Directors after 31 December 2017, is described in note B6 of the Group financial statements.

### Intention to demerge the Group's UK businesses

In March 2018, the Group announced its intention to demerge its UK and Europe business ('M&G Prudential') from Prudential plc, resulting in two separately listed companies. In preparation for the UK demerger process, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

### Sale of £12.0 billion\* UK annuity portfolio

In March 2018, M&G Prudential also announced the sale of £12.0 billion\* of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion\* of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. Further details are set out in the CFO report.

\* Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

## Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Prudential plc, whose names and positions are set out on pages 83 to 87 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

# Independent auditor's report to the members of Prudential plc only

## 1 Our opinion is unmodified

We have audited the financial statements of Prudential plc ('the Group and parent company') for the year ended 31 December 2017 which comprise:

- The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position and consolidated statement of cash flows, and the related notes, including accounting policies in notes A3 and E1; and
- The statement of financial position, statement of changes in equity, and the related notes, including the significant accounting policies in note 3 of the parent company financial statements.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with UK Accounting Standards including FRS 101 *Reduced Disclosure Framework*; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders in October 1999. The period of total uninterrupted engagement is the 19 years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ('FRC') Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

## 2 Key audit matters: Our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

### Valuation of policyholder liabilities (2017: £411,243 million, 2016: £388,996 million).

#### The risk compared to the prior year is unchanged.

Refer to page 105 (Audit Committee report), page 168 (accounting policy) and pages 230 to 252 (financial disclosures)

#### The risk

The Group has significant policyholder liabilities representing 86 per cent of the Group's total liabilities.

#### Subjective valuation

This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term policyholder liabilities. Economic assumptions, including investment return, credit risk and associated discount rates, and operating assumptions including mortality, morbidity, expenses and persistency (including consideration of policyholder behaviour) are the key inputs used to estimate these long-term liabilities, in addition to the appropriate design and calibration of reserving models.

The specific application of these judgements to individual components is explained below.

For the US component, the valuation of the guarantees in the variable annuity ('VA') business is complex as it involves exercising significant judgement over the relationship between the investment return attaching to these products and the guarantees contractually provided to policyholders and the likely policyholder behaviour in response to changes in investment performance.

#### Our response

We used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

#### Methodology choice

We have assessed the methodology for selecting assumptions and calculating the policyholder liabilities. This included:

- Applying our understanding of developments in the business and the impact of changes in methodology on the selection of assumptions;
- Comparing changes in methodology to our expectations derived from market experience; and
- Evaluating the analysis of the movements in policyholder liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted.

# Independent auditor's report to the members of Prudential plc only continued

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**Valuation of policyholder liabilities (2017: £411,243 million, 2016: £388,996 million).****The risk compared to the prior year is unchanged.**

Refer to page 105 (Audit Committee report), page 168 (accounting policy) and pages 230 to 252 (financial disclosures)

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**The risk**

For the UK component, the valuation of the policyholder liabilities in relation to the annuity business requires significant judgement over the setting of mortality, expenses and credit risk assumptions. This includes the use of complex modelling in order to determine the policyholder liabilities.

For the Asia component, the valuation of the policyholder liabilities requires significant judgement over the setting of mortality and morbidity assumptions.

**Our response****Control operation**

Our procedures included testing of the design, implementation and operating effectiveness of key controls over the valuation process including assessment and approval of the methods and assumptions adopted over the calculation of policyholder liabilities as well as appropriate access and change management controls over the actuarial models.

**Our procedures for the US component also included:****Historical comparison**

— Assessing the assumptions relating to policyholder behaviour by comparing to relevant company and industry historical experience data.

**Benchmarking assumptions and sector experience**

- Assessing the assumptions for investment mix and projected investment returns by comparing to company specific and industry data and for future growth rates by comparing to market trends and market volatility; and
- Utilising the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of assumptions in relation to policyholder behaviour, including the likely responses to projected changes in investment performance.

**Model evaluation**

— Assessing the reserving models by considering the accuracy of the cash flow projections including by reference to product features. We have also assessed the impact of modelling and assumption changes by inspecting pre- and post-change model runs and comparing the outcomes of the changes to our expectations.

**Our procedures for the UK component also included:****Historical comparison**

- Evaluating the evidence used to prepare the mortality experience investigation by reference to actual mortality experience of the policyholders in order to assess whether this supported the year-end assumptions adopted; and
- Assessing whether the expense assumptions appropriately reflect the expected future costs of administering the underlying policies by analysing current year unit costs and the likely impact of planned actions.

**Benchmarking assumptions and sector experience**

- Comparing mortality experience to industry data on current mortality and expectations of future mortality improvements;
  - Evaluating the credit risk assumptions by reference to industry practice and our expectation derived from market experience; and
  - Used the results of our industry benchmarking of assumptions and actuarial market practice to inform our challenge of the assumptions in relation to the mortality, credit risk and expense assumptions.
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## Valuation of policyholder liabilities (2017: £411,243 million, 2016: £388,996 million).

### The risk compared to the prior year is unchanged.

Refer to page 105 (Audit Committee report), page 168 (accounting policy) and pages 230 to 252 (financial disclosures)

The risk	Our response
	<p><b>Model evaluation</b></p> <ul style="list-style-type: none"> <li>— Evaluating the appropriateness of the calibration of the Continuous Mortality Investigation model adopted based on the analysis of the characteristics of the policyholder population and actual mortality experience.</li> </ul> <p>We used our own valuation models to perform an independent recalculation of a sample of policyholder liabilities to ensure that the selected model calibration has been appropriately implemented.</p> <p><b>Our procedures for the Asia component also included:</b></p> <p><b>Historical comparison</b></p> <ul style="list-style-type: none"> <li>— Evaluating the experience investigations in respect of the mortality and morbidity assumptions by reference to actual experience in order to assess whether this supported the year-end assumptions adopted.</li> </ul> <p><b>Benchmarking assumptions</b></p> <ul style="list-style-type: none"> <li>— Used the results of our industry benchmarking of assumptions and actuarial market practice together with available industry data to inform our challenge of the assumptions in the areas noted above.</li> </ul> <p><b>Model evaluation</b></p> <ul style="list-style-type: none"> <li>— We have assessed the reserving models by checking the accuracy of the cash flow projections including by reference to product features. We have also assessed the impact of modelling and assumption changes by inspecting pre- and post-change model runs and comparing the outcomes of the changes to our expectations.</li> </ul> <p><b>Assessing transparency</b></p> <p>We considered whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of the liabilities to alternative scenarios and inputs.</p> <p><b>Our result</b></p> <p>We found the valuation of policyholder liabilities to be acceptable (2016: acceptable).</p>

# Independent auditor's report to the members of Prudential plc only

## continued

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### **Valuation of investments (2017: £422,230 million, 2016: £393,584 million).**

#### **The risk compared to the prior year is unchanged.**

Refer to page 105 (Audit Committee report), page 174 (accounting policy) and pages 209 to 229 (financial disclosures)

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#### **The risk**

The Group's investment portfolio represents 91 per cent of the Group's total assets.

The portfolio of quoted investments and investments that are valued primarily using observable inputs, make up 89 per cent of the Group's total assets (by value). We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

#### **Subjective valuation**

The area that involved significant audit effort and judgement in 2017 was the valuation of harder to value positions within the financial investments portfolio representing 2 per cent of the Group's total assets. These included unlisted equity, unlisted debt securities, certain derivatives and loans such as commercial mortgage loans and bridge loans. For these positions a reliable third party price was not readily available and therefore involved the application of expert judgement in the valuations adopted.

The valuation of the portfolio involves judgement depending on the observability of the inputs into the valuation and further judgement in determining the appropriate valuation methodology for harder to value investments where external pricing sources are either not readily available or are unreliable.

#### **Our response**

We used our own valuation specialists in order to assist us in performing our procedures in this area.

Our procedures included:

#### **Methodology choice**

We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards and the Group's own valuation guidelines as well as industry practice.

#### **For quoted investments:**

##### **Tests of details**

We performed independent price checks using external quoted prices and by agreeing the observable inputs that were used in the Group's valuation techniques to external data.

#### **For harder to value positions:**

##### **Control operation**

We tested the design, implementation and operating effectiveness of key controls over the valuation process, including the Group's review and approval of the estimates and assumptions used for the valuation including key authorisation and data input controls.

#### **Benchmarking assumptions**

We assessed a sample of the valuation assumptions with reference to the Group's own valuation guidelines as well as industry practice.

#### **Tests of details**

We performed an inspection of files for loan securities on a sample basis by critically evaluating the performance of the loans and comparing this to the carrying value held. This included examining the existing and prospective investee company cash flows in order to assess whether the loans could be serviced or refinancing may be required, and to identify any potential impairment in relation to the loans.

We critically evaluated the valuation assessment and resulting conclusions in order to determine the appropriateness of the valuations recorded. This included an evaluation of the valuation assessment with reference to the Group's valuation guidelines and industry practice.

#### **Assessing transparency**

We assessed whether the disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes.

#### **Our result**

We found the valuation of investments to be acceptable (2016: acceptable).

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**Recoverability and amortisation of deferred acquisition costs ('DAC') (2017: £9,233 million, 2016: £9,178 million). The risk compared to the prior year is unchanged.**

Refer to page 105 (Audit Committee report), page 172 (accounting policy) and pages 254 to 256 (financial disclosures)

<b>The risk</b>	<b>Our response</b>
<p>DAC represents 2 per cent of the Group's total assets. The DAC associated with the US component, which represents 89 per cent of the total DAC, involves the greatest judgement in terms of measurement and recoverability.</p>	<p>We used our own actuarial specialists to assist us in performing our audit procedures in this area.</p>
<b>Subjective valuation</b>	<p>Our procedures included:</p>
<p>DAC involves judgements in respect of the identification of the acquisition costs that may be deferred, the appropriateness of the deferral methodology adopted and the assessment of the recoverability of the asset.</p>	<p><b>Methodology choice</b> We evaluated the appropriateness of the deferral methodology by reference to the requirements of relevant accounting standards.</p>
<p>The amortisation and recoverability assessment of the DAC asset in the US component is related to the achieved and projected future profit profile. This involves making assumptions about future investment returns and the consequential impact on fee income; therefore there is a greater level of subjectivity involved in relation to the US DAC.</p>	<p><b>Assessing application</b> We evaluated the judgements involved in determining whether the costs incurred are deferred appropriately by reference to the adopted deferral methodology.</p>
	<p><b>Benchmarking assumptions and market experience</b> We provided challenge on the reasonableness of the selected assumptions relating to projected investment return based on our understanding of developments in the business and our expectations derived from market experience. Our work included comparing the projected investment returns against the investment portfolio mix and market return data, and corroborating the rationale for any key differences.</p>
	<p><b>Historical comparison</b> We have also assessed the appropriateness of the assumptions used in determining the estimated future profit profile and the extent of the associated adjustment necessary to the amortisation of the DAC asset. Our work included critically assessing the judgements that determine the future profit profiles in the context of actual historical experience as well as by reference to market trends. We also compared the estimated future profits to the carrying value of the DAC asset to assess recoverability.</p>
	<p><b>Tests of detail</b> We verified the accuracy of the calculations performed including the extent of the amortisation adjustment determined based on an assessment of the future profit profiles.</p>
	<p><b>Assessing transparency</b> We assessed whether the disclosures in relation to the valuation and amortisation of DAC are compliant with the relevant accounting requirements.</p>
	<p><b>Our result</b> We found the valuation and amortisation of DAC to be acceptable (2016: acceptable).</p>

**Determination of pension asset (restricted surplus) in respect of the defined benefit pension scheme (Pension asset (restricted surplus) – 2017: £71 million, 2016: £48 million).**

**The risk relates to the parent company financial statements.**

Refer to page 105 (Audit Committee Report), page 308 (accounting policy) and pages 271 to 276 (financial disclosures)

**The risk**

The parent company assumes a portion of the surplus of the Group's main defined benefit pension scheme.

We do not consider the amounts recognised on the parent company balance sheet in respect of the defined benefit pension scheme to be at a high risk of significant misstatement. However, in the context of the parent company financial statements, we note that the valuation of the defined benefit pension obligation and the computation of the asset ceiling are the aspects of our audit of the pension asset (restricted surplus) that had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit given the number of assumptions involved.

**Subjective valuation**

Where an entity does not have a right to a refund the asset ceiling is determined by reference to the present value of the difference between the estimated future service cost and the contributions payable by the entity over the future working lives of the active members. Assumptions are made over the future service costs.

The calculation of the defined benefit obligation requires the determination of a number of assumptions and judgement is required to determine the appropriateness of these. The most significant assumptions include mortality and the inflation rate.

**Our response**

Our procedures included:

**Methodology choice**

We assessed, with the support of our pension specialists, the methodology for selecting assumptions underpinning the calculation of the defined benefit pension obligation and the estimated future service cost including the consequent calculation of the restricted surplus by reference to the relevant accounting standards.

**Tests of detail**

We assessed the reasonableness of the mortality assumptions and inflation rate by reference to entity specific data in respect of the demographic characteristics of the population of pension scheme members and factors such as salary inflation.

We also considered whether the movements in the defined benefit pension obligation and the estimated future service cost, including the consequential calculation of the restricted surplus, were consistent with the changes made in the assumptions from the prior year.

**Benchmarking assumptions**

We challenged, with the support of our own pension specialists, the key assumptions applied, being the inflation and mortality rates, against externally derived data.

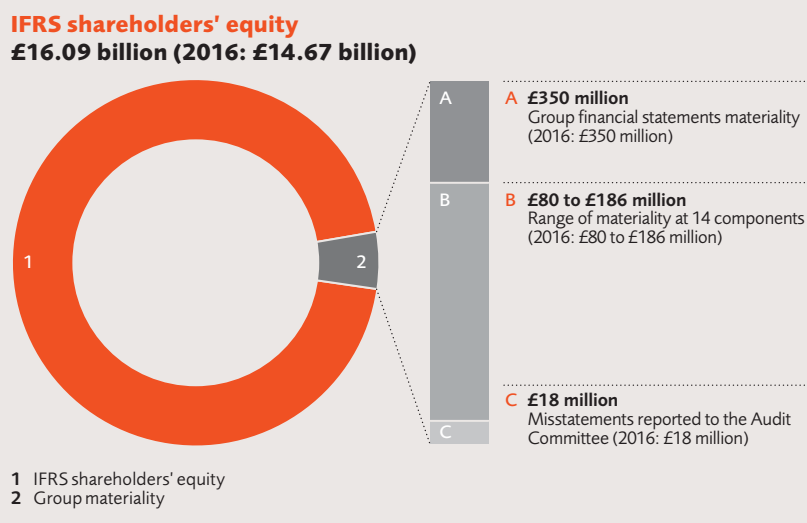
**Our result**

We found the pension asset (restricted surplus) recognised in respect of the defined benefit pension scheme to be acceptable (2016: acceptable).

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the Group financial statements as a whole was set at £350 million (2016: £350 million) determined with reference to a benchmark of IFRS shareholders' equity (of which it represents 2.2 per cent (2016: 2.4 per cent)). We consider IFRS shareholders' equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for; we consider that this is the most appropriate measure for the size of the business and that it provides a stable measure year on year. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

We set out below the materiality thresholds that are key to the audit.



Materiality for the parent company financial statements as a whole was set at £186 million (2016: £186 million), determined with reference to a benchmark of parent company's net assets, of which it represents 2.4 per cent (2016: 2.5 per cent).

We agreed to report to the Group audit committee any corrected or uncorrected identified misstatements exceeding £18 million (2016: £18 million) in addition to other identified misstatements that warrant reporting on qualitative grounds.

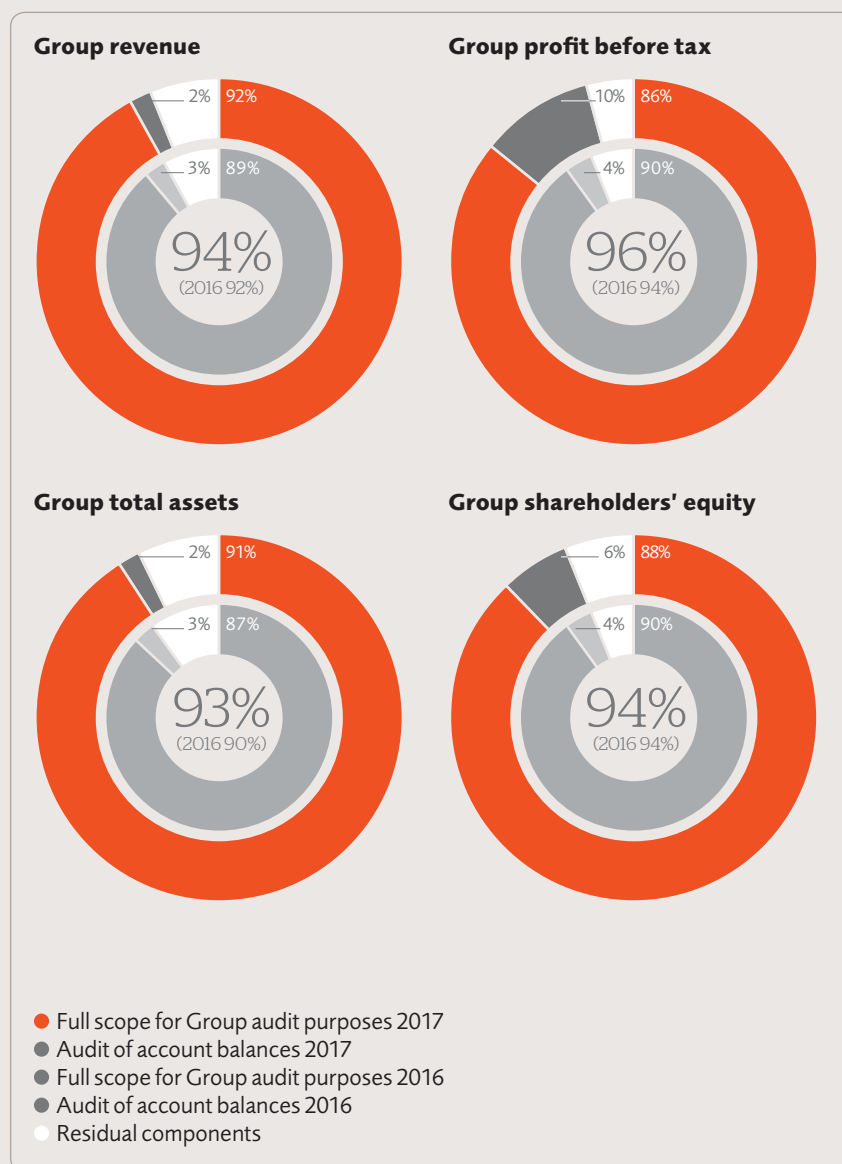
We subjected the Group's operations to audits for group reporting purposes as follows:

Of the 14 (2016: 15) reporting components scoped in for the Group audit, we subjected 10 (2016: 10) to full scope audits for group reporting purposes and 4 (2016: 5) to an audit of account balances. The latter were not individually financially significant enough to require a full scope audit for group reporting purposes, but did present specific individual audit risks that needed to be addressed.

The components subjected to full scope audits included the parent company; the insurance operations in the UK, US, Hong Kong, Indonesia, Singapore, Malaysia, and Thailand; and the fund management operations of M&G and Eastspring Singapore. Additionally, the components subjected to an audit of account balances included Prudential Capital and the insurance operations in China, Taiwan and Vietnam.

The account balances audited were policyholder liabilities, investments and deferred acquisition costs. For the remaining operations, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these operations.

These components accounted for the following percentages of the Group's results:



# Independent auditor's report to the members of Prudential plc only

## continued

The Group audit team held a global planning conference with component auditors to identify audit risks and decide how each component team should address the identified audit risks. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported. The Group audit team approved the component materialities, which ranged from £80 million to £186 million (2016: unchanged) across the components, having regard to the size and risk profile of the Group. The work on 13 components (2016: 14 components) was performed by component auditors and work on the remaining component, which was the parent company, was performed by the Group audit team.

The Group audit team visited 13 component locations, comprising: the insurance operations in the UK, US, Hong Kong, Indonesia, Singapore, Malaysia, Thailand, Taiwan, Vietnam and China; the fund management operations in M&G and Eastspring Singapore; and Prudential Capital. Video and telephone conference meetings were also held with these component auditors. At these visits and telephone conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor.

The Senior Statutory Auditor, in conjunction with other senior staff in the Group and component audit teams, also regularly attended Business Unit audit committee meetings (these were held at a regional level for Asia) and participated in meetings with local components to obtain additional understanding first hand, of the key risks and audit issues at a component level which may affect the Group financial statements.

#### 4 We have nothing to report on going concern

We are required to report to you if:

- We have anything material to add or draw attention to in relation to the Directors' statement on page 120 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- The related statement under the Listing Rules set out on page 120 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

#### 5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### Strategic report and Directors' report

Based solely on our work on the other information:

- We have not identified material misstatements in the strategic report and the Directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation within the viability statement on page 62, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks disclosures on pages 50 to 63 describing these risks and explaining how they are being managed and mitigated; and
- The Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

#### Corporate governance disclosures

We are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- The section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in respect of above.

### 6 We have nothing to report in respect of the matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### 7 Respective responsibilities Directors' responsibilities

As explained more fully in their statement set out on page 314, the Directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

### Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the Directors (as required by auditing standards) and from inspection of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital recognising the financial and regulated nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component teams.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### 8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Philip Smart**  
Senior Statutory Auditor

For and on behalf of KPMG LLP,  
Statutory Auditor  
Chartered Accountants  
London

14 March 2018





# 06

## European Embedded Value (EEV) basis results

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## Index to European Embedded Value (EEV) basis results

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### Description of EEV basis reporting

In broad terms, IFRS profit for long-term business reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions, and an approach to the underlying methodology and disclosures.

Results prepared under the EEV Principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits, full allowance is made for the risks attached to their emergence and the associated cost of capital, taking into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 14 and 15.



## European Embedded Value (EEV) basis results

### Post-tax operating profit based on longer-term investment returns

	Note	2017 £m	2016 £m note (iii)
<b>Asia operations</b>			
New business	3	2,368	2,030
Business in force	4	1,337	1,044
Long-term business		3,705	3,074
Asset management		155	125
<b>Total</b>		<b>3,860</b>	<b>3,199</b>
<b>US operations</b>			
New business	3	906	790
Business in force	4	1,237	1,181
Long-term business		2,143	1,971
Asset management		7	(3)
<b>Total</b>		<b>2,150</b>	<b>1,968</b>
<b>UK and Europe operations</b>			
New business	3	342	268
Business in force	4	673	375
Long-term business		1,015	643
General insurance commission		13	23
<b>Total insurance operations</b>		<b>1,028</b>	<b>666</b>
Asset management		403	341
<b>Total</b>		<b>1,431</b>	<b>1,007</b>
Other income and expenditure <sup>note (i)</sup>		(746)	(682)
Restructuring costs <sup>note (ii)</sup>		(97)	(32)
Interest received from tax settlement		–	37
<b>Operating profit based on longer-term investment returns</b>		<b>6,598</b>	<b>5,497</b>
<b>Analysed as profit (loss) from:</b>			
New business	3	3,616	3,088
Business in force	4	3,247	2,600
Long-term business		6,863	5,688
Asset management and general insurance commission		578	486
Other results		(843)	(677)
		<b>6,598</b>	<b>5,497</b>

#### Notes

- (i) EEV basis other income and expenditure represents the post-tax IFRS basis results for other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital) less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 14(a)(vii)).
- (ii) Restructuring costs comprise the post-tax charge recognised on an IFRS basis and the additional amount recognised on an EEV basis for the shareholders' share incurred by the PAC with-profits fund. The costs are primarily incurred in UK and Europe and Asia and represent business transformation and integration costs.
- (iii) The comparative results have been prepared using previously reported average exchange rates for the year. The 2016 comparative results have been re-presented from those previously published following the reassessment of the Group's operating segments as described in note B1.3 of the IFRS financial statements. This approach has been adopted consistently throughout this supplementary information.

## European Embedded Value (EEV) basis results continued

### Post-tax summarised consolidated income statement

	Note	2017 £m	2016 £m
Asia operations		3,860	3,199
US operations		2,150	1,968
UK and Europe operations		1,431	1,007
Other income and expenditure		(746)	(682)
Restructuring costs		(97)	(32)
Interest received from tax settlement		–	37
<b>Operating profit based on longer-term investment returns</b>		<b>6,598</b>	<b>5,497</b>
Short-term fluctuations in investment returns	5	2,111	(507)
Effect of changes in economic assumptions	6	(102)	(60)
Mark to market value movements on core structural borrowings		(326)	(4)
Impact of US tax reform	7	390	–
Profit (loss) attaching to disposal of businesses	17	80	(410)
Total non-operating profit (loss)		2,153	(981)
<b>Profit for the year</b>		<b>8,751</b>	<b>4,516</b>
Attributable to:			
Equity holders of the Company		8,750	4,516
Non-controlling interests		1	–
		<b>8,751</b>	<b>4,516</b>

### Basic earnings per share

	2017	2016
Based on post-tax operating profit including longer-term investment returns after non-controlling interests (in pence)	257.0p	214.7p
Based on post-tax profit attributable to equity holders of the Company (in pence)	340.9p	176.4p
Weighted average number of shares (millions)	2,567	2,560

## Movement in shareholders' equity

	Note	2017 £m	2016 £m
Profit for the year attributable to equity holders of the Company		8,750	4,516
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges		(2,045)	4,211
External dividends		(1,159)	(1,267)
Mark to market value movements on Jackson assets backing surplus and required capital		40	(11)
Other reserve movements		144	(367)
Net increase in shareholders' equity	9	5,730	7,082
Shareholders' equity at beginning of year	9	38,968	31,886
<b>Shareholders' equity at end of year</b>	9	<b>44,698</b>	<b>38,968</b>

	31 Dec 2017 £m			31 Dec 2016 £m		
	Long-term business operations	Asset management and other operations	Group total	Long-term business operations	Asset management and other operations	Group total
<b>Comprising:</b>						
Asia operations	21,191	401	21,592	18,717	383	19,100
US operations	13,257	235	13,492	11,805	204	12,009
UK and Europe operations	11,713	1,914	13,627	10,320	1,845	12,165
Other operations	–	(4,013)	(4,013)	–	(4,306)	(4,306)
<b>Shareholders' equity at end of year</b>	<b>46,161</b>	<b>(1,463)</b>	<b>44,698</b>	<b>40,842</b>	<b>(1,874)</b>	<b>38,968</b>
<b>Representing:</b>						
Net assets attributable to equity holders of the Company excluding acquired goodwill, holding company net borrowings and non-controlling interests	45,917	1,562	47,479	40,597	948	41,545
Acquired goodwill	244	1,214	1,458	245	1,230	1,475
Holding company net borrowings at market value <sup>note 8</sup>	–	(4,239)	(4,239)	–	(4,052)	(4,052)
	<b>46,161</b>	<b>(1,463)</b>	<b>44,698</b>	<b>40,842</b>	<b>(1,874)</b>	<b>38,968</b>

## European Embedded Value (EEV) basis results continued

### Summary statement of financial position

	Note	31 Dec 2017 £m	31 Dec 2016 £m
<b>Total assets less liabilities, before deduction for insurance funds*</b>		434,608	407,928
Less insurance funds:			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(418,521)	(393,262)
Less shareholders' accrued interest in the long-term business	9	28,611	24,302
		(389,910)	(368,960)
<b>Total net assets attributable to equity holders of the Company</b>	9	44,698	38,968
Share capital		129	129
Share premium		1,948	1,927
IFRS basis shareholders' reserves		14,010	12,610
Total IFRS basis shareholders' equity	9	16,087	14,666
Additional EEV basis retained profit	9	28,611	24,302
<b>Total EEV basis shareholders' equity</b>	9	44,698	38,968

\* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

### Net asset value per share

	31 Dec 2017	31 Dec 2016
Based on EEV basis shareholders' equity of £44,698 million (2016: £38,968 million) (in pence)	1,728p	1,510p
Number of issued shares at year end (millions)	2,587	2,581
<b>Annualised return on embedded value*</b>	17%	17%

\* Annualised return on embedded value is based on EEV post-tax operating profit after non-controlling interests, as a percentage of opening EEV basis shareholders' equity.

The supplementary information on pages 327 to 358 was approved by the Board of Directors on 14 March 2018.



**Paul Manduca**  
Chairman



**Mike Wells**  
Group Chief Executive



**Mark FitzPatrick**  
Chief Financial Officer

# Notes on the EEV basis results

## 1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. Except for the reclassification of results to reflect the reassessment of the Group's operating segments as described in the note in B1.3 of the IFRS financial statements, the 2016 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2016.

A detailed description of the EEV methodology and accounting presentation is provided in note 14.

## 2 Results analysis by business area

The 2016 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2016 CER comparative results are translated at 2017 average exchange rates.

### Annual premium equivalents (APE) <sup>note 16</sup>

	Note	2017 £m		2016 £m		% change	
		AER	CER	AER	CER	AER	CER
Asia		3,805		3,599	3,773	6%	1%
US		1,662		1,561	1,641	6%	1%
UK and Europe		1,491		1,160	1,160	29%	29%
<b>Group total</b>	3	<b>6,958</b>		<b>6,320</b>	<b>6,574</b>	<b>10%</b>	<b>6%</b>

### Post-tax operating profit

	Note	2017 £m		2016 £m		% change	
		AER	CER	AER	CER	AER	CER
<b>Asia operations</b>							
New business	3	2,368		2,030	2,123	17%	12%
Business in force	4	1,337		1,044	1,097	28%	22%
Long-term business		3,705		3,074	3,220	21%	15%
Asset management		155		125	132	24%	17%
<b>Total</b>		<b>3,860</b>		<b>3,199</b>	<b>3,352</b>	<b>21%</b>	<b>15%</b>
<b>US operations</b>							
New business	3	906		790	830	15%	9%
Business in force	4	1,237		1,181	1,241	5%	0%
Long-term business		2,143		1,971	2,071	9%	3%
Asset management		7		(3)	(4)	333%	275%
<b>Total</b>		<b>2,150</b>		<b>1,968</b>	<b>2,067</b>	<b>9%</b>	<b>4%</b>
<b>UK and Europe operations</b>							
New business	3	342		268	268	28%	28%
Business in force	4	673		375	375	79%	79%
Long-term business		1,015		643	643	58%	58%
General insurance commission		13		23	23	(43)%	(43)%
Total insurance operations		1,028		666	666	54%	54%
Asset management		403		341	341	18%	18%
<b>Total</b>		<b>1,431</b>		<b>1,007</b>	<b>1,007</b>	<b>42%</b>	<b>42%</b>
Other income and expenditure		(746)		(682)	(688)	(9)%	(8)%
Restructuring costs		(97)		(32)	(32)	(203)%	(203)%
Interest received from tax settlement		–		37	37	n/a	n/a
<b>Operating profit based on longer-term investment returns</b>		<b>6,598</b>		<b>5,497</b>	<b>5,743</b>	<b>20%</b>	<b>15%</b>

## Notes on the EEV basis results continued

### 2 Results analysis by business area continued

	Note	2017 £m		2016 £m		% change	
		AER	CER	AER	CER	AER	CER
<b>Analysed as profit (loss) from:</b>							
New business	3	3,616	3,088	3,221	17%	12%	
Business in force	4	3,247	2,600	2,713	25%	20%	
Total long-term business		6,863	5,688	5,934	21%	16%	
Asset management and general insurance commission		578	486	492	19%	17%	
Other results		(843)	(677)	(683)	(25)%	(23)%	
		6,598	5,497	5,743	20%	15%	

### Post-tax profit

	Note	2017 £m		2016 £m		% change	
		AER	CER	AER	CER	AER	CER
Operating profit based on longer-term investment returns		6,598	5,497	5,743	20%	15%	
Short-term fluctuations in investment returns	5	2,111	(507)	(567)			
Effect of changes in economic assumptions	6	(102)	(60)	(54)			
Mark to market value movements on core structural borrowings		(326)	(4)	(4)			
Impact of US tax reform	7	390	–	–			
Profit (loss) attaching to disposal of businesses	17	80	(410)	(445)			
Total non-operating profit (loss)		2,153	(981)	(1,070)	319%	301%	
<b>Profit for the year</b>		<b>8,751</b>	<b>4,516</b>	<b>4,673</b>	<b>94%</b>	<b>87%</b>	

### Basic earnings per share

	2017		2016		% change	
	AER	CER	AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns after non-controlling interests (in pence)	257.0p	214.7p	224.3p	20%	15%	
Based on post-tax profit attributable to equity holders of the Company (in pence)	340.9p	176.4p	182.5p	93%	87%	

### 3 Analysis of new business contribution

#### (i) Group summary for long-term business operations

	2017				
	Annual premium equivalents (APE) note 16 £m	Present value of new business premiums (PVNBP) note 16 £m	New business contribution £m	New business margin	
				APE %	PVNBP %
Asia <sup>note (ii)</sup>	3,805	20,405	2,368	62	11.6
US	1,662	16,622	906	55	5.5
UK and Europe	1,491	13,784	342	23	2.5
Total	6,958	50,811	3,616	52	7.1

	2016				
	Annual premium equivalents (APE) note 16 £m	Present value of new business premiums (PVNBP) note 16 £m	New business contribution £m	New business margin	
				APE %	PVNBP %
Asia <sup>note (ii)</sup>	3,599	19,271	2,030	56	10.5
US	1,561	15,608	790	51	5.1
UK and Europe	1,160	10,513	268	23	2.5
<b>Total</b>	<b>6,320</b>	<b>45,392</b>	<b>3,088</b>	<b>49</b>	<b>6.8</b>

**Note**

After allowing for foreign exchange effects of £133 million, the new business contribution increased by £395 million on a CER basis. This increase is driven by higher sales volumes (a contribution of £188 million), a beneficial effect of changes in long-term interest rates (£48 million) and pricing, product mix and other actions of £159 million. The £159 million impact reflects the beneficial impact of our strategic emphasis on increasing sales from health and protection business in Asia, together with a positive £76 million effect arising in the US for the impact of US tax reform (see note 7).

**(ii) Asia new business contribution by business unit**

	2017 £m	2016 £m	
		AER	CER
China	133	63	65
Hong Kong	1,535	1,363	1,427
Indonesia	174	175	183
Taiwan	57	31	35
Other	469	398	413
<b>Total Asia</b>	<b>2,368</b>	<b>2,030</b>	<b>2,123</b>

**4 Operating profit from business in force****(i) Group summary for long-term business operations**

	2017 £m			
	Asia note (ii)	US note (iii)	UK and Europe note (iv)	Group total
Unwind of discount and other expected returns	1,007	694	465	2,166
Effect of changes in operating assumptions	241	196	195	632
Experience variances and other items	89	347	13	449
<b>Group total</b>	<b>1,337</b>	<b>1,237</b>	<b>673</b>	<b>3,247</b>

	2016 £m			
	Asia note (ii)	US note (iii)	UK and Europe note (iv)	Group total
Unwind of discount and other expected returns	866	583	445	1,894
Effect of changes in operating assumptions	54	170	25	249
Experience variances and other items	124	428	(95)	457
<b>Group total</b>	<b>1,044</b>	<b>1,181</b>	<b>375</b>	<b>2,600</b>

**Note**

The movement in operating profit from business in force of £647 million from £2,600 million for 2016 to £3,247 million for 2017 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Growth in opening value	251
Interest rates and other economic assumptions	(47)
Foreign exchange	68
	272
Movement in effect of changes in operating assumptions, experience variances and other items (including foreign exchange of £45 million)	375
<b>Net movement in operating profit from business in force</b>	<b>647</b>

# Notes on the EEV basis results continued

## 4 Operating profit from business in force continued

### (ii) Asia

	2017 £m	2016 £m
Unwind of discount and other expected returns <sup>note (a)</sup>	1,007	866
Effect of changes in operating assumptions <sup>note (b)</sup>	241	54
Experience variances and other items <sup>note (c)</sup>	89	124
<b>Total</b>	<b>1,337</b>	<b>1,044</b>

#### Notes

- (a) The £141 million increase in unwind of discount and other expected returns to £1,007 million for 2017 is driven by the growth in the in-force book, with offsetting effects arising from foreign exchange (£38 million) and movements in long-term interest rates and changes in other economic assumptions (£38 million).
- (b) The effect of changes in operating assumptions of £241 million reflects the net benefit for EEV arising from the annual review of experience, together with the benefit of management actions reflecting our ongoing focus on managing the in-force book for value. It includes a £107 million benefit arising in China from adopting the principles for embedded value reporting under the China Risk Oriented Solvency System (C-ROSS) regime in 2017 (see note 14(a)(v)).
- (c) The £89 million effect of experience variances and other items in 2017 is driven by positive mortality and morbidity experiences in a number of business units, together with positive persistency variances from participating and health and protection products, partially offset by unfavourable persistency variances on unit-linked products. Experience variances also include expense overruns where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

### (iii) US

	2017 £m	2016 £m
Unwind of discount and other expected returns <sup>note (a)</sup>	694	583
Effect of changes in operating assumptions <sup>note (b)</sup>	196	170
Experience variances and other items:		
Spread experience variance	71	119
Amortisation of interest-related realised gains and losses	91	88
Other <sup>note (c)</sup>	185	221
	347	428
<b>Total</b>	<b>1,237</b>	<b>1,181</b>

#### Notes

- (a) The £111 million increase in unwind of discount and other expected returns to £694 million for 2017 represents a positive £87 million effect for the growth in the in-force book (after allowing for the benefit of US tax reform) and a net £24 million effect for foreign exchange and interest rate movements.
- (b) The effect of assumption changes of £196 million in 2017 mainly relates to assumption updates for persistency, mortality and policyholder utilisation.
- (c) Other experience variances of £185 million in 2017 include the effects of positive mortality and persistency experience in the period, together with the benefit of tax credits relating to the dividend received deduction for variable annuity business.

### (iv) UK and Europe

	2017 £m	2016 £m
Unwind of discount and other expected returns <sup>note (a)</sup>	465	445
Change in longevity assumptions basis <sup>note (b)</sup>	195	–
Reduction in corporate tax rate	–	25
Other items <sup>note (c)</sup>	13	(95)
<b>Total</b>	<b>673</b>	<b>375</b>

#### Notes

- (a) The £20 million increase in unwind of discount and other expected returns to £465 million for 2017 is mainly driven by the underlying growth in the in-force book.
- (b) The £195 million relates to changes to annuitant mortality assumptions primarily reflecting the adoption of the Continuous Mortality Investigation 2015 model as the basis for future mortality improvements.
- (c) Other items comprise the following:

	2017 £m	2016 £m
Longevity reinsurance	(6)	(90)
Impact of specific management actions to improve solvency position	127	110
Provision for cost of undertaking past non-advised annuity sales review and potential redress <sup>note (d)</sup>	(187)	(145)
Other	79	30
	13	(95)

- (d) In response to the findings of the FCA's Thematic Review of Annuities Sales Practices, the UK business has agreed to review all internally vesting annuities sold without advice after 1 July 2008. The FCA formally released its redress calculation methodology in early 2018 and Prudential reassessed the provision held. Reflecting this, the UK 2017 result includes a £(187) million (post-tax) increase in the provision held for the estimated cost of the review and any appropriate customer redress. The provision held continues to exclude any potential for insurance recoveries. For more information, see note B3 of the IFRS financial statements.



## 5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns included in profit for the year arise as follows:

### (i) Group summary

	2017 £m	2016 £m
Asia operations <sup>note (ii)</sup>	887	(100)
US operations <sup>note (iii)</sup>	582	(1,102)
UK and Europe operations <sup>note (iv)</sup>	621	876
Other operations	21	(181)
<b>Group total</b>	<b>2,111</b>	<b>(507)</b>

### (ii) Asia operations

The short-term fluctuations in investment returns for Asia operations comprise:

	2017 £m	2016 £m
Hong Kong	531	(105)
Singapore	126	52
Other	230	(47)
<b>Total</b>	<b>887</b>	<b>(100)</b>

#### Note

For 2017, the credit of £887 million mainly reflects unrealised gains on bonds driven by the decrease in bond yields across many of the business units (see note 15(i)), together with higher equity returns than assumed for Hong Kong with-profits business and higher investment returns than assumed in Singapore for with-profits and unit-linked businesses.

### (iii) US operations

The short-term fluctuations in investment returns for US operations comprise:

	2017 £m	2016 £m
Investment return related experience on fixed income securities <sup>note (a)</sup>	(46)	(85)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current year separate account return, net of related hedging activity and other items <sup>note (b)</sup>	628	(1,017)
<b>Total</b>	<b>582</b>	<b>(1,102)</b>

#### Notes

- (a) The net result relating to fixed income securities reflects a number of offsetting items as follows:
- the impact on portfolio yields of changes in the asset portfolio in the year;
  - the difference between actual realised gains and losses and the amortisation of interest-related realised gains and losses that is recorded within operating profit; and
  - credit experience (versus the longer-term assumption).
- (b) This item reflects the net impact of:
- changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values of 17.5 per cent and that assumed of 5.9 per cent for the year (2016: actual growth of 8.9 per cent compared to assumed growth of 6.0 per cent); and
  - related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

### (iv) UK and Europe operations

The short-term fluctuations in investment returns for UK and Europe operations comprise:

	2017 £m	2016 £m
Insurance operations:		
Shareholder-backed annuity business <sup>note (a)</sup>	387	431
With-profits and other business <sup>note (b)</sup>	229	438
Asset management	5	7
<b>Total</b>	<b>621</b>	<b>876</b>

#### Notes

- (a) Short-term fluctuations in investment returns for shareholder-backed annuity business include:
- gains on surplus assets compared to the expected long-term rate of return reflecting reductions in corporate bond and gilt yields; and
  - the difference between actual and expected default experience.
- (b) The positive £229 million fluctuation in 2017 for with-profits and other business represents the impact of achieving a 9 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 5 per cent for the year (2016: achieved return of 14 per cent compared to assumed rate of 5 per cent), partially offset by the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market.

## Notes on the EEV basis results continued

### 6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in the profit for the year arise as follows:

#### (i) Group summary for long-term business operations

	2017 £m	2016 £m
Asia <sup>note (ii)</sup>	(95)	70
US <sup>note (iii)</sup>	(136)	45
UK and Europe <sup>note (iv)</sup>	129	(175)
Group total	(102)	(60)

#### (ii) Asia

The effect of changes in economic assumptions for Asia comprises:

	2017 £m	2016 £m
Hong Kong	(321)	85
Indonesia	81	46
Malaysia	59	(20)
Singapore	131	(60)
Taiwan	(12)	12
Other	(33)	7
Total	(95)	70

#### Note

The negative effect in 2017 of £(95) million largely arises from movements in long-term interest rates, driven by lower assumed fund earned rates in Hong Kong, partially offset by profits arising from the beneficial impact of valuing future profits at lower discount rates in Indonesia, Malaysia and Singapore (see note 15(i)). In addition, various changes to the basis of setting economic assumptions were made with an overall impact of £5 million (see note 14(a)(viii), note 15(i) and note 15(iv)).

#### (iii) US

The effect of changes in economic assumptions for US comprises:

	2017 £m	2016 £m
Variable annuity business	(101)	86
Fixed annuity and other general account business	(35)	(41)
Total	(136)	45

#### Note

For 2017, the charge of £(136) million mainly reflects the decrease in the assumed separate account return and reinvestment rates, following the 10 basis points decrease in the US 10-year treasury yield in the year, resulting in lower projected fee income and an increase in projected benefit costs for variable annuity business. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income from the combined movement in interest rates and credit spreads.

#### (iv) UK and Europe

The effect of changes in economic assumptions for UK and Europe comprises:

	2017 £m	2016 £m
Shareholder-backed annuity business	28	(113)
With-profits and other business	101	(62)
Total	129	(175)

#### Note

The credit of £129 million mainly reflects the movement in expected long-term rates of return and risk discount rates as shown in note 15 (iii).

## 7 Impact of US tax reform

On 22 December 2017, a significant US tax reform package, The Tax Cuts and Jobs Act, was enacted into law effective from 1 January 2018. The tax reform package as a whole, which includes a reduction in the corporate income tax rate from 35 per cent to 21 per cent, and a number of specific measures affecting US life insurers, results in a £390 million benefit in non-operating profit. The positive impact on an EEV basis represents the benefit of future profits being taxed at a lower rate, partially offset by a reduction in the net deferred tax asset held in the balance sheet to reflect remeasurement at the new lower tax rate, together with a reduction in the benefit from the dividend received deduction on taxable profits from variable annuity business.

In accordance with our usual methodology, the new business contribution and unwind of discount and other expected returns are determined by applying operating and economic assumptions as at the end of the year, including the effect of US tax reform. This led to an increase in new business profit of £76 million.

## 8 Net core structural borrowings of shareholder-financed operations

	31 Dec 2017 £m			31 Dec 2016 £m		
	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company (including central finance subsidiaries) cash and short-term investments	(2,264)	–	(2,264)	(2,626)	–	(2,626)
Central funds						
Subordinated debt	5,272	515	5,787	5,772	182	5,954
Senior debt	549	167	716	549	175	724
	5,821	682	6,503	6,321	357	6,678
Holding company net borrowings	3,557	682	4,239	3,695	357	4,052
Prudential Capital bank loan	275	–	275	275	–	275
Jackson surplus notes	184	61	245	202	65	267
Group total	4,016	743	4,759	4,172	422	4,594

### Note

In October 2017, the Company issued core structural borrowings of US\$750 million 4.875 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £565 million. In December 2017, the Company repaid its US\$1,000 million 6.5 per cent Tier 2 perpetual subordinated notes. The movement in IFRS basis core structural borrowings from 2016 to 2017 also includes foreign exchange effects.

# Notes on the EEV basis results continued

## 9 Reconciliation of movement in shareholders' equity

	2017 £m				
	Asia operations note (i)	US operations	UK and Europe operations	Other operations note (i)	Group total note (iv)
<b>Operating profit (based on longer-term investment returns)</b>					
Long-term business:					
New business <sup>note 3</sup>	2,368	906	342	–	3,616
Business in force <sup>note 4</sup>	1,337	1,237	673	–	3,247
Asset management and general insurance commission	3,705	2,143	1,015	–	6,863
Restructuring costs	155	7	416	–	578
Other results	(14)	–	(73)	(10)	(97)
	–	–	–	(746)	(746)
<b>Operating profit based on longer-term investment returns</b>	<b>3,846</b>	<b>2,150</b>	<b>1,358</b>	<b>(756)</b>	<b>6,598</b>
Non-operating items	792	917	750	(306)	2,153
Non-controlling interests	4,638	3,067	2,108	(1,062)	8,751
	–	–	–	(1)	(1)
<b>Profit for the year</b>	<b>4,638</b>	<b>3,067</b>	<b>2,108</b>	<b>(1,063)</b>	<b>8,750</b>
<b>Other items taken directly to equity:</b>					
Exchange movements on foreign operations and net investment hedges	(1,192)	(1,159)	6	300	(2,045)
Intra-group dividends and investment in operations <sup>note (ii)</sup>	(842)	(466)	(678)	1,986	–
External dividends	–	–	–	(1,159)	(1,159)
Mark to market value movements on Jackson assets backing surplus and required capital	–	40	–	–	40
Other movements <sup>note (iii)</sup>	(111)	1	26	228	144
<b>Net increase in shareholders' equity</b>	<b>2,493</b>	<b>1,483</b>	<b>1,462</b>	<b>292</b>	<b>5,730</b>
Shareholders' equity at beginning of year	18,855	12,009	12,165	(4,061)	38,968
<b>Shareholders' equity at end of year</b>	<b>21,348</b>	<b>13,492</b>	<b>13,627</b>	<b>(3,769)</b>	<b>44,698</b>
Representing:					
IFRS basis shareholders' equity:					
Net assets (liabilities)	5,620	5,248	7,092	(3,331)	14,629
Goodwill	61	–	1,153	244	1,458
Total IFRS basis shareholders' equity	5,681	5,248	8,245	(3,087)	16,087
Additional retained profit (loss) on an EEV basis	15,667	8,244	5,382	(682)	28,611
EEV basis shareholders' equity	21,348	13,492	13,627	(3,769)	44,698
Balance at beginning of year:					
IFRS basis shareholders' equity:					
Net assets (liabilities)	5,069	5,392	6,679	(3,949)	13,191
Goodwill	61	16	1,153	245	1,475
Total IFRS basis shareholders' equity	5,130	5,408	7,832	(3,704)	14,666
Additional retained profit (loss) on an EEV basis	13,725	6,601	4,333	(357)	24,302
EEV basis shareholders' equity	18,855	12,009	12,165	(4,061)	38,968

**Notes**

- (i) Other operations of £(3,769) million represents the shareholders' equity of £(4,013) million as shown in the movement in shareholders' equity and includes goodwill of £244 million (2016: £245 million) related to Asia long-term operations.
- (ii) Intra-group dividends represent dividends that have been declared in the year and investment in operations reflect increases in share capital. The amounts included in note 11 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.
- (iii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares and intra-group transfers between operations which have no overall effect on the Group's embedded value.
- (iv) Group total EEV basis shareholders' equity can be further analysed as follows:

	31 Dec 2017 £m				31 Dec 2016 £m			
	Total long-term business operations note 10	Asset management and general insurance commission	Other operations	Group total	Total long-term business operations	Asset management and general insurance commission	Other operations	Group total
Total IFRS basis shareholders' equity	16,624	2,550	(3,087)	16,087	15,938	2,432	(3,704)	14,666
Additional retained profit (loss) on an EEV basis note (v)	29,293	–	(682)	28,611	24,659	–	(357)	24,302
Total EEV basis shareholders' equity	45,917	2,550	(3,769)	44,698	40,597	2,432	(4,061)	38,968

- (v) The additional retained loss on an EEV basis for other operations represents the mark to market value adjustment for holding company net borrowings of a cumulative charge of £(682) million (2016: £(357) million), as shown in note 8.

## Notes on the EEV basis results continued

### 10 Analysis of movement in net worth and value of in-force for long-term business

	2017 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business	Total embedded value
<b>Group</b>					
Shareholders' equity at beginning of year	5,364	10,296	15,660	24,937	40,597
New business contribution	(913)	700	(213)	3,829	3,616
Existing business – transfer to net worth	3,279	(742)	2,537	(2,537)	–
Expected return on existing business <sup>note 4</sup>	138	201	339	1,827	2,166
Changes in operating assumptions and experience variances <sup>note 4</sup>	635	(117)	518	563	1,081
Restructuring costs	(38)	–	(38)	(10)	(48)
<b>Operating profit based on longer-term investment returns</b>	3,101	42	3,143	3,672	6,815
Sale of Korea life business <sup>note 17</sup>	76	(76)	–	–	–
Other non-operating items	(426)	251	(175)	2,601	2,426
<b>Profit for the year</b>	2,751	217	2,968	6,273	9,241
Exchange movements on foreign operations and net investment hedges	(274)	(248)	(522)	(1,800)	(2,322)
Intra-group dividends and investment in operations	(1,535)	–	(1,535)	–	(1,535)
Other movements	(64)	–	(64)	–	(64)
<b>Shareholders' equity at end of year</b>	6,242	10,265	16,507	29,410	45,917
<b>Asia</b>					
New business contribution	(484)	152	(332)	2,700	2,368
Existing business – transfer to net worth	1,275	(146)	1,129	(1,129)	–
Expected return on existing business <sup>note 4</sup>	51	48	99	908	1,007
Changes in operating assumptions and experience variances <sup>note 4</sup>	81	151	232	98	330
<b>Operating profit based on longer-term investment returns</b>	923	205	1,128	2,577	3,705
Sale of Korea life business <sup>note 17</sup>	76	(76)	–	–	–
Other non-operating items	254	137	391	401	792
<b>Profit for the year</b>	1,253	266	1,519	2,978	4,497
<b>US</b>					
New business contribution	(254)	304	50	856	906
Existing business – transfer to net worth	1,329	(219)	1,110	(1,110)	–
Expected return on existing business <sup>note 4</sup>	56	53	109	585	694
Changes in operating assumptions and experience variances <sup>note 4</sup>	190	12	202	341	543
<b>Operating profit based on longer-term investment returns</b>	1,321	150	1,471	672	2,143
Non-operating items	(1,247)	(222)	(1,469)	2,358	889
<b>Profit for the year</b>	74	(72)	2	3,030	3,032

	2017 £m				
	Free surplus	Required capital	Total net worth	Value of in-force business	Total embedded value
<b>UK and Europe</b>					
New business contribution	(175)	244	69	273	342
Existing business – transfer to net worth	675	(377)	298	(298)	–
Expected return on existing business <sup>note 4</sup>	31	100	131	334	465
Changes in operating assumptions and experience variances <sup>note 4</sup>	364	(280)	84	124	208
Restructuring costs	(38)	–	(38)	(10)	(48)
<b>Operating profit based on longer-term investment returns</b>	<b>857</b>	<b>(313)</b>	<b>544</b>	<b>423</b>	<b>967</b>
Non-operating items	567	336	903	(158)	745
<b>Profit for the year</b>	<b>1,424</b>	<b>23</b>	<b>1,447</b>	<b>265</b>	<b>1,712</b>

**Note**

The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital for long-term business as shown below:

	31 Dec 2017 £m				31 Dec 2016 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
Value of in-force business before deduction of cost of capital and time value of guarantees	17,539	10,486	3,648	31,673	15,371	8,584	3,468	27,423
Cost of capital	(588)	(232)	(607)	(1,427)	(477)	(319)	(692)	(1,488)
Cost of time value of guarantees	(186)	(650)	–	(836)	(87)	(911)	–	(998)
Net value of in-force business	16,765	9,604	3,041	29,410	14,807	7,354	2,776	24,937
Total net worth	4,182	3,653	8,672	16,507	3,665	4,451	7,544	15,660
Total embedded value <sup>note 9(iv)</sup>	20,947	13,257	11,713	45,917	18,472	11,805	10,320	40,597

## Notes on the EEV basis results continued

### 11 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles. In Asia and US operations, assets deemed to be inadmissible on local regulatory basis are included in net worth where considered fully recognisable on an EEV basis. Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital) is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

Free surplus for insurance and asset management operations and Group total free surplus, including other operations, are shown in the tables below.

#### (i) Underlying free surplus generated – insurance and asset management operations

The 2016 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The 2016 CER comparative results are translated at 2017 average exchange rates.

	2017 £m	2016 £m		% change	
		AER	CER	AER	CER
<b>Asia operations</b>					
Underlying free surplus generated from in-force life business	1,407	1,210	1,273	16%	11%
Investment in new business <sup>note (iii)(a)</sup>	(484)	(476)	(500)	(2)%	3%
Long-term business	923	734	773	26%	19%
Asset management	155	125	132	24%	17%
Total	1,078	859	905	25%	19%
<b>US operations</b>					
Underlying free surplus generated from in-force life business	1,575	1,866	1,961	(16)%	(20)%
Investment in new business <sup>note (iii)(a)</sup>	(254)	(298)	(313)	15%	19%
Long-term business	1,321	1,568	1,648	(16)%	(20)%
Asset management	7	(3)	(4)	333%	275%
Total	1,328	1,565	1,644	(15)%	(19)%
<b>UK and Europe operations</b>					
Underlying free surplus generated from in-force life business	1,070	923	923	16%	16%
Investment in new business <sup>note (iii)(a)</sup>	(175)	(129)	(129)	(36)%	(36)%
Long-term business	895	794	794	13%	13%
General insurance commission	13	23	23	(43)%	(43)%
Asset management	403	341	341	18%	18%
Total	1,311	1,158	1,158	13%	13%
<b>Underlying free surplus generated from insurance and asset management operations before restructuring costs</b>					
Restructuring costs	3,717	3,582	3,707	4%	0%
	(77)	(16)	(16)	(381)%	(381)%
<b>Underlying free surplus generated from insurance and asset management operations</b>					
	3,640	3,566	3,691	2%	(1)%



	2017 £m		2016 £m		% change	
			AER	CER	AER	CER
Representing:						
Long-term business:						
Expected in-force cash flows (including expected return on net assets)	3,417		3,159	3,278	8%	4%
Effects of changes in operating assumptions, operating experience variances and other items before restructuring costs	635		840	879	(24)%	(28)%
Underlying free surplus generated from in-force life business before restructuring costs	4,052		3,999	4,157	1%	(3)%
Investment in new business <sup>note (iii)(a)</sup>	(913)		(903)	(942)	(1)%	3%
Total long-term business	3,139		3,096	3,215	1%	(2)%
Asset management and general insurance commission	578		486	492	19%	17%
Restructuring costs	(77)		(16)	(16)	(381)%	(381)%
	3,640		3,566	3,691	2%	(1)%

### (ii) Underlying free surplus generated – Group total

	2017 £m		2016 £m		% change	
			AER	CER	AER	CER
Underlying free surplus generated from insurance and asset management operations <sup>note (i)</sup>	3,640		3,566	3,691	2%	(1)%
Other income and expenditure	(756)		(681)	(687)	(11)%	(10)%
Interest received from tax settlement	–		37	37	n/a	n/a
Group total	2,884		2,922	3,041	(1)%	(5)%

### (iii) Movement in free surplus

	2017 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Underlying free surplus generated before restructuring costs	1,078	1,328	1,311	3,717	(746)	2,971
Restructuring costs	(14)	–	(63)	(77)	(10)	(87)
Underlying free surplus generated <sup>notes (i)(ii)</sup>	1,064	1,328	1,248	3,640	(756)	2,884
Profit attaching to disposal of businesses <sup>note 17</sup>	76	96	–	172	–	172
Other non-operating items <sup>note (b)</sup>	254	(1,299)	572	(473)	27	(446)
Net cash flows to parent company <sup>note (c)</sup>	1,394	125	1,820	3,339	(729)	2,610
External dividends	(645)	(475)	(668)	(1,788)	1,788	–
Exchange rate movements, timing differences and other items <sup>note (d)</sup>	–	–	–	–	(1,159)	(1,159)
	(421)	(140)	22	(539)	226	(313)
<b>Net movement in free surplus</b>	328	(490)	1,174	1,012	126	1,138
Balance at beginning of year	2,142	2,418	2,006	6,566	1,648	8,214
<b>Balance at end of year</b>	2,470	1,928	3,180	7,578	1,774	9,352

# Notes on the EEV basis results continued

## 11 Analysis of movement in free surplus continued

### (iii) Movement in free surplus continued

	2016 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Underlying free surplus generated before restructuring costs	859	1,565	1,158	3,582	(628)	2,954
Restructuring costs	–	–	(16)	(16)	(16)	(32)
Underlying free surplus generated <sup>notes (i)(ii)</sup>	859	1,565	1,142	3,566	(644)	2,922
Loss attaching to the sold Korea life business	(86)	–	–	(86)	–	(86)
Other non-operating items <sup>note (b)</sup>	(91)	(770)	(64)	(925)	(214)	(1,139)
Net cash flows to parent company <sup>note (c)</sup>	682	795	1,078	2,555	(858)	1,697
External dividends	(516)	(420)	(782)	(1,718)	1,718	–
Exchange rate movements, timing differences and other items <sup>note (d)</sup>	–	–	–	–	(1,267)	(1,267)
	162	310	21	493	1,119	1,612
<b>Net movement in free surplus</b>	<b>328</b>	<b>685</b>	<b>317</b>	<b>1,330</b>	<b>712</b>	<b>2,042</b>
Balance at beginning of year	1,814	1,733	1,689	5,236	936	6,172
<b>Balance at end of year</b>	<b>2,142</b>	<b>2,418</b>	<b>2,006</b>	<b>6,566</b>	<b>1,648</b>	<b>8,214</b>

#### Notes

- (a) Free surplus invested in new business primarily represents acquisition costs and amounts set aside for required capital.  
 (b) Non-operating items include short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations and the effect of business disposals. In addition, for 2017 this includes the impact of US tax reform.  
 (c) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.  
 (d) Exchange rate movements, timing differences and other items represent:

	2017 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Exchange rate movements	(113)	(190)	6	(297)	(13)	(310)
Mark to market value movements on Jackson assets backing surplus and required capital <sup>note 9</sup>	–	40	–	40	–	40
Other items <sup>note (e)</sup>	(308)	10	16	(282)	239	(43)
	(421)	(140)	22	(539)	226	(313)

	2016 £m					
	Asia operations	US operations	UK and Europe operations	Total insurance and asset management operations	Other operations	Group total
Exchange rate movements	338	368	10	716	48	764
Mark to market value movements on Jackson assets backing surplus and required capital	–	(11)	–	(11)	–	(11)
Other items <sup>note (e)</sup>	(176)	(47)	11	(212)	1,071	859
	162	310	21	493	1,119	1,612

- (e) Other items include the effect of movements in subordinated debt for other operations, intra-group loans and other intra-group transfers between operations, non-cash items.

## 12 Expected transfer of value of in-force business and required capital to free surplus

The discounted value of in-force business and required capital for long-term business operations can be reconciled to the 2017 and 2016 totals for the emergence of free surplus as follows:

	2017 £m	2016 £m
Required capital <sup>note 10</sup>	10,265	10,296
Value of in-force business (VIF) <sup>note 10</sup>	29,410	24,937
Add back: deduction for cost of time value of guarantees <sup>note 10</sup>	836	998
Free surplus generation from the sale of Korea life business	–	(76)
Other items*	(1,371)	(1,430)
<b>Total long-term business operations</b>	<b>39,140</b>	<b>34,725</b>

\* 'Other items' represent amounts incorporated into VIF where there is no definitive time frame for when the payments will be made or receipts received. In particular, other items include the deduction of the shareholders' interest in the with-profits estate, the value of which is derived by increasing final bonus rates so as to exhaust the estate over the lifetime of the in-force with-profits business. This is an assumption to give an appropriate valuation. To be conservative this item is excluded from the expected free surplus generation profile below.

Cash flows are projected on a deterministic basis and are discounted at the appropriate risk discount rate. The modelled cash flows use the same methodology underpinning the Group's EEV reporting and so are subject to the same assumptions and sensitivities.

The table below shows how the VIF generated by the in-force business and the associated required capital for long-term business operations is modelled as emerging into free surplus over future years.

	2017 £m						
	2017 total as shown above	Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
		1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia	18,692	5,583	3,638	2,418	1,655	3,845	1,553
US	12,455	6,247	3,993	1,697	401	117	–
UK and Europe	7,993	3,012	2,066	1,289	899	704	23
<b>Total</b>	<b>39,140</b>	<b>14,842</b>	<b>9,697</b>	<b>5,404</b>	<b>2,955</b>	<b>4,666</b>	<b>1,576</b>
	100%	38%	25%	14%	7%	12%	4%

	2016 £m						
	2016 total as shown above	Expected period of conversion of future post-tax distributable earnings and required capital flows to free surplus					
		1-5 years	6-10 years	11-15 years	16-20 years	21-40 years	40+ years
Asia	16,393	5,141	3,331	2,209	1,515	3,118	1,079
US	10,556	5,542	3,203	1,240	372	199	–
UK and Europe	7,776	2,890	1,931	1,119	901	899	36
<b>Total</b>	<b>34,725</b>	<b>13,573</b>	<b>8,465</b>	<b>4,568</b>	<b>2,788</b>	<b>4,216</b>	<b>1,115</b>
	100%	39%	25%	13%	8%	12%	3%

## 13 Sensitivity of results to alternative assumptions

### (a) Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2017 and 31 December 2016 and the new business contribution after the effect of required capital for 2017 and 2016 for long-term business operations to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates and risk discount rates, including consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets);
- 0.5 per cent decrease in interest rates and risk discount rates, including consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level in contrast to EEV basis required capital (for embedded value only); and
- 5 basis points increase in UK long-term expected defaults.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

## Notes on the EEV basis results continued

### 13 Sensitivity of results to alternative assumptions continued

#### (a) Sensitivity analysis – economic assumptions continued

##### New business contribution from long-term business operations

	2017 £m				2016 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
<b>New business contribution</b> <sup>note 3</sup>	2,368	906	342	3,616	2,030	790	268	3,088
Discount rates – 1% increase	(477)	(34)	(48)	(559)	(375)	(43)	(32)	(450)
Interest rates – 1% increase	(103)	124	44	65	51	64	27	142
Interest rates – 0.5% decrease	(59)	(85)	(23)	(167)	(30)	(49)	(15)	(94)
Equity/property yields – 1% rise	130	130	52	312	129	91	28	248
Long-term expected defaults – 5 bps increase	–	–	(1)	(1)	–	–	(2)	(2)

##### Embedded value of long-term business operations

	31 Dec 2017 £m				31 Dec 2016 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
<b>Shareholders' equity</b> <sup>note 10</sup>	20,947	13,257	11,713	45,917	18,472	11,805	10,320	40,597
Discount rates – 1% increase	(2,560)	(440)	(774)	(3,774)	(2,078)	(379)	(809)	(3,266)
Interest rates – 1% increase	(944)	26	(635)	(1,553)	(701)	(241)	(638)	(1,580)
Interest rates – 0.5% decrease	121	(166)	384	339	248	25	369	642
Equity/property yields – 1% rise	873	896	425	2,194	771	653	314	1,738
Equity/property market values – 10% fall	(429)	(209)	(479)	(1,117)	(361)	(11)	(399)	(771)
Statutory minimum capital	169	158	–	327	150	223	–	373
Long-term expected defaults – 5 bps increase	–	–	(135)	(135)	–	–	(138)	(138)

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumptions shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year, namely the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition, for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital, which are taken directly to shareholders' equity.

#### (b) Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2017 and 31 December 2016 and the new business contribution after the effect of required capital for 2017 and 2016 for long-term business operations to:

- 10 per cent proportionate decrease in maintenance expenses (a 10 per cent sensitivity on a base assumption of £10 per annum would represent an expense assumption of £9 per annum);
- 10 per cent proportionate decrease in lapse rates (a 10 per cent sensitivity on a base assumption of 5 per cent would represent a lapse rate of 4.5 per cent per annum); and
- 5 per cent proportionate decrease in base mortality and morbidity rates (ie increased longevity).

## New business contribution from long-term business operations

	2017 £m				2016 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
<b>New business contribution</b> <sup>note 3</sup>	2,368	906	342	3,616	2,030	790	268	3,088
Maintenance expenses – 10% decrease	38	14	3	55	33	10	3	46
Lapse rates – 10% decrease	133	24	20	177	132	26	11	169
Mortality and morbidity – 5% decrease	69	4	(2)	71	57	4	(4)	57
Change representing effect on:								
Life business	69	4	1	74	57	4	–	61
UK annuities	–	–	(3)	(3)	–	–	(4)	(4)

## Embedded value of long-term business operations

	31 Dec 2017 £m				31 Dec 2016 £m			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
<b>Shareholders' equity</b> <sup>note 10</sup>	20,947	13,257	11,713	45,917	18,472	11,805	10,320	40,597
Maintenance expenses – 10% decrease	213	169	64	446	187	104	91	382
Lapse rates – 10% decrease	753	659	64	1,476	659	533	79	1,271
Mortality and morbidity – 5% decrease	668	214	(442)	440	554	192	(302)	444
Change representing effect on:								
Life business	668	214	13	895	554	192	12	758
UK annuities	–	–	(455)	(455)	–	–	(314)	(314)

## 14 Methodology and accounting presentation

### (a) Methodology

#### Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- The present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - The cost of locked-in required capital; and
  - The time value of cost of options and guarantees;
- Locked-in required capital; and
- The shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results as explained in note 14(b)(iii), no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 14(b)(i).

#### (i) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business, including the Group's investments in joint venture and associate insurance operations, for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations (including Group and Asia Regional Head Office, holding company borrowings, Africa operations and Prudential Capital). Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 14(a)(vii).

The definition of long-term business operations comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- The closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of The Prudential Assurance Company Limited (PAC) long-term fund, established by a Court Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.
- The presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

## 14 Methodology and accounting presentation continued

### (a) Methodology continued

#### (ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity, as described in note 15(vii). These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

#### **New business**

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating and economic assumptions as at the end of the year. New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of regular premium new business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

#### **Valuation movements on investments**

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the EEV result for Jackson acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that, broadly speaking, are held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation/depreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

#### (iii) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required, capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

#### (iv) Financial options and guarantees

##### **Nature of financial options and guarantees in Prudential's long-term business**

##### **Asia**

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK and Europe business broadly apply to similar types of participating contracts which are principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

##### **US (Jackson)**

The principal financial options and guarantees in Jackson are associated with the fixed annuity (FA) and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for both years, depending on the particular product, jurisdiction where issued, and date of issue. For both years, 87 per cent of the account values on fixed annuities are for policies with guarantees of 3 per cent or less, and the average guarantee rate is 2.6 per cent.

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts for which it contractually guarantees to the contract holder, subject to specific conditions, either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholders' value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, and essentially fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities (FIA) that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

### UK and Europe (M&G Prudential)

For covered business the only significant financial options and guarantees in M&G Prudential arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses: annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision of £53 million at 31 December 2017 (31 December 2016: £62 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in M&G Prudential is through the non-covered business of SAIF. A provision of £503 million was held in SAIF at 31 December 2017 (31 December 2016: £571 million) to honour the guarantees. As described in note 14(a)(i), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders' funds.

### Time value

The value of financial options and guarantees comprises two parts:

- The first part arises from a deterministic valuation on best estimate assumptions (the intrinsic value).
- The second part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 15(iv), (v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

### (v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets, subject to it being at least the local statutory minimum requirements.

For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. For M&G Prudential, a portion of future shareholder transfers expected from the with-profits fund is recognised within net worth, together with the associated capital requirements.

For shareholder-backed business, the following capital requirements for long-term business operations apply:

- Asia: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target. For China operations, the level of required capital as at 31 December 2017 follows the approach for embedded value reporting issued by the China Association of Actuaries (CAA), reflecting the C-ROSS regime;
- US: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK and Europe: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole.

## 14 Methodology and accounting presentation continued

### (a) Methodology continued

#### (vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

#### (vii) Internal asset management

The in-force and new business results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current year profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the year as included in 'Other operations'. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the assets for covered business.

#### (viii) Allowance for risk and risk discount rates

##### Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin.

For Asia and the US, the risk-free rates are based on 10-year local government bond yields.

For UK and Europe, the EEV risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period.

The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. In order to better reflect differences in relative market risk volatility inherent in each product group, Prudential sets the risk discount rates to reflect the expected volatility associated with the cash flows for each product category in the embedded value model, rather than at a Group level.

Since financial options and guarantees are explicitly valued under the EEV methodology, risk discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

##### Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below), such an approach has been used for the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

##### Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- Expected long-term defaults;
- Credit risk premium (to reflect the volatility in downgrade and default levels); and
- Short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below:

##### Asia

For Asia, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.



## US (Jackson)

For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults (0.2 per cent for variable annuity business and 1.0 per cent for non-variable annuity business for both years), as shown in note 15(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

- How much of the credit spread on debt securities represents an increased short-term credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
- Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment returns credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

## UK and Europe (M&G Prudential)

### (1) Shareholder-backed annuity business

For shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by European Insurance and Occupational Pensions Authority (EIOPA) using a prudent assumption that all future downgrades will be replaced annually, and allowing for the credit spread floor.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate, shown in note 15(iii).

### (2) With-profits fund non-profit annuity business

For non-profit annuity business attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows from the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows from the fund.

### (3) With-profits fund holdings of debt securities

The with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over risk free, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

## Allowance for non-diversifiable non-market risks

The majority of non-market and non-credit risks are considered to be diversifiable. An allowance for non-diversifiable non-market risks is estimated as set out below:

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's Asia operations in China, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. The level of these allowances are reviewed and updated based on an assessment of a range of pre-defined emerging market risk indicators, as well as the Group's exposure and experience in the business units. During 2017, the China allowance for non-market risk was reduced reflecting the growth in the size of the business, increasing management exposure and experience in the country and an improvement in our risk assessment of the market. For the Group's US business and UK and Europe business, no additional allowance is necessary.

## (ix) Foreign currency translation

Foreign currency profits and losses have been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year-end exchange rates. The principal exchange rates are shown in note A1 of the IFRS financial statements.

# Notes on the EEV basis results continued

## 14 Methodology and accounting presentation continued

### (a) Methodology continued

#### (x) Taxation

In determining the post-tax profit for the year for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

#### (xi) Inter-company arrangements

The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to the PAC non-profit sub-fund.

### (b) Accounting presentation

#### (i) Analysis of post-tax profit

To the extent applicable, the presentation of the EEV post-tax profit for the year is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 14(b)(ii)) and incorporate the following:

- New business contribution, as defined in note 14(a)(ii);
- Unwind of discount on the value of in-force business and other expected returns, as described in note 14(b)(iii);
- The impact of routine changes of estimates relating to operating assumptions, as described in note 14(b)(iv); and
- Operating experience variances, as described in note 14(b)(v).

Non-operating results comprise the recurrent items of:

- Short-term fluctuations in investment returns;
- The mark to market value movements on core structural borrowings; and
- The effect of changes in economic assumptions.

In addition, non-operating results include the effect of the disposal of businesses (see note 17) and in 2017, the impact of US tax reform (see note 7).

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

#### (ii) Investment returns included in operating profit

For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of M&G Prudential, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 14(b)(iii).

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin reserve charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end-of-period risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force business adjusted to reflect end-of-period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the operating result for the year.

#### (iii) Unwind of discount and other expected returns

The Group's methodology in determining the unwind of discount and other expected returns is by reference to:

- The value of in-force business at the beginning of the year (adjusted for the effect of current year economic and operating assumption changes); and
- Required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for M&G Prudential is described below.

### M&G Prudential

The unwind is determined by reference to an implied single risk discount rate. The EEV risk-free rate is based on a yield curve (as set out in note 14(a)(viii)), which is used to derive a single implied discount rate which, if this rate had been used, would reproduce the same embedded value as that calculated by reference to the yield curve. The difference between the operating profit determined using the single implied discount rate and that derived using the yield curve is included within non-operating profit.

For with-profits business, the opening value of in-force is adjusted for the effect of short-term investment volatility due to market movements (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 31 December 2017 the shareholders' interest in the smoothed surplus assets used for this purpose only were £57 million lower (31 December 2016: £77 million lower) than the surplus assets carried in the statement of financial position.

#### (iv) Effect of changes in operating assumptions

Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the year. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variances subsequently being determined by reference to the end-of-year assumptions (see note 14(b)(v)).

#### (v) Operating experience variances

Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality and morbidity, expenses and other factors, which are calculated with reference to the end-of-year assumptions.

#### (vi) Effect of changes in economic assumptions

Movements in the value of in-force business at the beginning of the year caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results. For M&G Prudential, the embedded value incorporates Solvency II transitional measures, which are recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The effect of changes in economic assumptions is after allowing for this recalculation.

## 15 Assumptions

### Principal economic assumptions

The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to year-end risk-free rates of return (defined below for each of the Group's insurance operations). Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same over time as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the year.

#### (i) Asia <sup>notes (b)(c)</sup>

The risk-free rates of return for Asia are defined as 10-year government bond yields at the end of the year.

In order to reflect Prudential's most recent assessment of the growth prospects of the region compared to other developed markets and the historically strong relationship between long-term economic growth and long-term equity returns, in a number of Asia business units, equity risk premiums were increased during 2017 by between 25 basis points and 75 basis points from those applied at 2016. The related expected return on equity and risk discount rates have also been increased by equivalent amounts. In addition, for a few Asia business units, expected long-term inflation assumptions were revised during 2017 to better reflect central bank inflation targets and to align with the currency of the underlying exposures.

	Risk discount rate %				10-year government bond yield %		Expected long-term inflation %	
	New business		In-force business		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016				
China	9.7	9.6	9.7	9.6	3.9	3.1	3.0	2.5
Hong Kong <sup>notes (b)(d)</sup>	4.1	3.9	4.1	3.9	2.4	2.5	2.5	2.3
Indonesia	10.6	12.0	10.6	12.0	6.4	8.1	4.5	5.0
Malaysia <sup>note (d)</sup>	6.4	6.8	6.5	6.9	3.9	4.3	2.5	2.5
Philippines	12.7	11.6	12.7	11.6	5.2	4.8	4.0	4.0
Singapore <sup>note (d)</sup>	3.5	4.2	4.4	5.0	2.0	2.5	2.0	2.0
Taiwan	4.3	4.0	3.9	4.0	0.9	1.2	1.5	1.0
Thailand	9.8	9.4	9.8	9.4	2.3	2.7	3.0	3.0
Vietnam	12.6	13.0	12.6	13.0	5.1	6.3	5.5	5.5
Total weighted risk discount rate <sup>note (a)</sup>	5.3	5.3	5.7	6.1				

# Notes on the EEV basis results continued

## 15 Assumptions continued

### Principal economic assumptions continued

#### Notes

- (a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each market's risk discount rates by reference to the post-tax EEV basis new business contribution and the closing value of in-force business. The changes in the risk discount rates for individual Asia business units reflect:
- the movements in 10-year government bond yields;
  - changes in product mix; and
  - the effect of changes in the economic basis (see note 14(a)(viii) and above).
- (b) For Hong Kong the assumptions shown are for US dollar denominated business. For other business units, the assumptions are for local currency denominated business.
- (c) Equity risk premiums in Asia range from 4.0 per cent to 9.4 per cent (2016: from 3.5 per cent to 8.7 per cent).
- (d) The mean equity return assumptions for the most significant equity holdings of the Asia operations are:

	31 Dec 2017 %	31 Dec 2016 %
Hong Kong	6.4	6.5
Malaysia	10.4	10.2
Singapore	8.5	8.5

### (ii) US

The risk-free rates of return for the US are defined as 10-year treasury bond yield at the end of the year.

	31 Dec 2017 %	31 Dec 2016 %
Assumed new business spread margins:*		
Fixed annuity business:†		
January to June issues	1.50	1.25
July to December issues	1.25	1.25
Fixed index annuity business:		
January to June issues	1.75	1.50
July to December issues	1.50	1.50
Institutional business	0.50	0.50
Allowance for long-term defaults included in projected spread <sup>note 14(a)(viii)</sup>	0.19	0.21
Risk discount rate:		
Variable annuity:		
Risk discount rate	6.8	6.9
Additional allowance for credit risk included in risk discount rate <sup>note 14(a)(viii)</sup>	0.2	0.2
Non-variable annuity:		
Risk discount rate	4.1	4.1
Additional allowance for credit risk included in risk discount rate <sup>note 14(a)(viii)</sup>	1.0	1.0
Weighted average total:		
New business	6.7	6.8
In-force business	6.5	6.5
US 10-year treasury bond yield	2.4	2.5
Pre-tax expected long-term nominal rate of return for US equities	6.4	6.5
Expected long-term rate of inflation	3.0	3.0
Equity risk premium	4.0	4.0
S&P equity return volatility <sup>note (v)</sup>	18.0	18.0

\* Including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

† Including the proportion of variable annuity business invested in the general account.

### (iii) UK and Europe

The risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. These yield curves are used to derive pre-tax expected long-term nominal rates of investment return and risk discount rates. For the purpose of determining the unwind of discount in the analysis of operating profit, these yield curves are used to derive a single implied risk discount rate, as explained in note 14(a)(viii).

This single implied risk discount rate is shown, along with the 15-year nominal rate of investment return and 15-year rate of inflation based on the yield curve.

	31 Dec 2017 %	31 Dec 2016 %
<b>Shareholder-backed annuity in-force business:</b> <sup>note (a)</sup>		
Risk discount rate	4.0	4.5
Pre-tax expected 15-year nominal rates of investment return <sup>note (c)</sup>	2.6	2.8
<b>With-profits and other business:</b>		
Risk discount rate: <sup>note (b)</sup>		
New business	4.7	4.7
In-force business	4.8	4.9
Pre-tax expected 15-year nominal rates of investment return: <sup>note (c)</sup>		
Overseas equities	6.2 to 10.1	6.2 to 9.4
Property	4.4	4.5
15-year gilt yield	1.6	1.7
Corporate bonds	3.4	3.5
Expected 15-year rate of inflation	3.5	3.6
Equity risk premium	4.0	4.0

#### Notes

- (a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates reflect the effect of changes in asset yields.
- (b) The risk discount rates for with-profits and other business shown above represents a weighted average total of the rates applied to determine the present value of future cash flows, including a portion of future with-profits business shareholders' transfers recognised in net worth.
- (c) The table below shows the pattern of the UK risk-free Solvency II spot yield curve at the end of both years:

	1 year	5 year	10 year	15 year	20 year
31 Dec 2017	0.6%	0.9%	1.2%	1.3%	1.4%
31 Dec 2016	0.4%	0.7%	1.1%	1.3%	1.3%

### Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 14(a)(iv).

#### (iv) Asia

- The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore and Taiwan operations;
- The principal asset classes are government and corporate bonds;
- The asset return models are similar to the models as described for M&G Prudential below; and
- The volatility of equity returns ranges from 18 per cent to 35 per cent, and the volatility of government bond yields ranges from 1.1 per cent to 2.0 per cent (2016: from 0.9 per cent to 2.3 per cent) following a number of modelling changes at full year 2017 in respect of future bond returns.

#### (v) US (Jackson)

- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data;
- Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions; and
- The volatility of equity returns ranges from 18 per cent to 27 per cent for both years, and the standard deviation of interest rates ranges from 2.5 per cent to 2.8 per cent (2016: from 2.3 per cent to 2.6 per cent).

#### (vi) UK and Europe (M&G Prudential)

- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields;
- Equity returns are assumed to follow a log-normal distribution;
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread;
- Property returns are also modelled on a risk-free return plus a risk premium with a stochastic process reflecting total property returns; and
- The standard deviation of equities and property ranges from 14 per cent to 20 per cent (2016: from 15 per cent to 20 per cent).

# Notes on the EEV basis results continued

## 15 Assumptions continued

### Operating assumptions

#### (vii) Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

#### Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

#### Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the actions to achieve the savings have been delivered. Expense overruns are reported where these are expected to be short-lived, including businesses that are growing rapidly or are sub-scale.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia Regional Head Office that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

- Expenditure for Group Head Office, to the extent not allocated to the PAC with-profits funds, together with restructuring costs; and
- Expenditure of the Asia Regional Head Office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

#### (viii) Tax rates

The assumed long-term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 14(a)(x).

The local statutory corporate tax rates applicable for the most significant operations for 2016 and 2017 are as follows:

Statutory corporate tax rates	%
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia	25.0
Malaysia	24.0
Singapore	17.0
US operations*	2016 and 2017: 35.0; from 1 January 2018: 21.0
UK operations	2016: 20.0; from 1 April 2017: 19.0; from 1 April 2020: 17.0

\* The US tax reform changes included a reduction in the corporate income tax rate from 35 per cent to 21 per cent effective from 1 January 2018 (see note 7).

## 16 Insurance new business premiums <sup>note (i)</sup>

	Single premiums		Regular premiums		Annual premium equivalents (APE) note 14(a)(ii)		Present value of new business premiums (PVNBP) note 14(a)(ii)	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Asia	2,299	2,397	3,575	3,359	3,805	3,599	20,405	19,271
US	16,622	15,608	–	–	1,662	1,561	16,622	15,608
UK and Europe	13,044	9,836	187	177	1,491	1,160	13,784	10,513
<b>Group total</b>	<b>31,965</b>	<b>27,841</b>	<b>3,762</b>	<b>3,536</b>	<b>6,958</b>	<b>6,320</b>	<b>50,811</b>	<b>45,392</b>
<b>Asia</b>								
Cambodia	–	–	16	14	16	14	70	66
Hong Kong	582	1,140	1,667	1,798	1,725	1,912	10,027	10,930
Indonesia	288	236	268	255	297	279	1,183	1,048
Malaysia	73	110	271	233	278	244	1,398	1,352
Philippines	62	91	71	61	77	70	287	278
Singapore	859	523	361	299	447	351	3,463	2,627
Thailand	139	80	70	81	84	89	421	404
Vietnam	8	6	133	115	134	116	659	519
<b>SE Asia operations including Hong Kong</b>	<b>2,011</b>	<b>2,186</b>	<b>2,857</b>	<b>2,856</b>	<b>3,058</b>	<b>3,075</b>	<b>17,508</b>	<b>17,224</b>
China <sup>note (ii)</sup>	179	124	276	187	294	199	1,299	880
Taiwan	46	36	208	146	213	150	634	499
India <sup>note (iii)</sup>	63	51	234	170	240	175	964	668
<b>Total</b>	<b>2,299</b>	<b>2,397</b>	<b>3,575</b>	<b>3,359</b>	<b>3,805</b>	<b>3,599</b>	<b>20,405</b>	<b>19,271</b>
<b>US</b>								
Variable annuities	11,536	10,653	–	–	1,154	1,065	11,536	10,653
Elite Access (variable annuity)	2,013	2,056	–	–	201	206	2,013	2,056
Fixed annuities	454	555	–	–	45	55	454	555
Fixed index annuities	295	508	–	–	30	51	295	508
Wholesale	2,324	1,836	–	–	232	184	2,324	1,836
<b>Total</b>	<b>16,622</b>	<b>15,608</b>	<b>–</b>	<b>–</b>	<b>1,662</b>	<b>1,561</b>	<b>16,622</b>	<b>15,608</b>
<b>UK and Europe</b>								
Bonds	3,509	3,834	–	–	351	384	3,510	3,835
Corporate pensions	103	110	130	121	140	132	533	479
Individual pensions	5,747	2,532	32	35	607	289	5,897	2,681
Income drawdown	2,218	1,649	–	–	222	165	2,218	1,649
Other products	1,467	1,711	25	21	171	190	1,626	1,869
<b>Total</b>	<b>13,044</b>	<b>9,836</b>	<b>187</b>	<b>177</b>	<b>1,491</b>	<b>1,160</b>	<b>13,784</b>	<b>10,513</b>
<b>Group total</b>	<b>31,965</b>	<b>27,841</b>	<b>3,762</b>	<b>3,536</b>	<b>6,958</b>	<b>6,320</b>	<b>50,811</b>	<b>45,392</b>

### Notes

- (i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. A reconciliation of APE and gross earned premiums on an IFRS basis is provided in note II(l) within the unaudited financial information.
- (ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.
- (iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

## Notes on the EEV basis results continued

### 17 Disposal of businesses

On 18 May 2017, the Group announced it had completed the sale of its life insurance subsidiary in Korea, PCA Life Insurance, to Mirae Asset Life Insurance for KRW 170 billion (£117 million at 17 May 2017 closing exchange rate) following regulatory approval. The proceeds, net of £(9) million of related expenses, were £108 million. Upon disposal, £76 million of required capital was released and a corresponding increase in free surplus was recognised. There were no other impacts on the 2017 results.

On 15 August 2017, the Group through its subsidiary National Planning Holdings, Inc. (NPH) sold its US independent broker-dealer network to LPL Financial LLC. The initial consideration received was £252 million (US\$325 million) resulting in a post-tax profit on disposal of £80 million (US\$103 million) after costs and net losses that have been incurred in the year.

### 18 Post balance sheet events

#### Intention to demerge the Group's UK businesses

In March 2018, the Group announced its intention to demerge its UK & Europe business ('M&G Prudential') from Prudential plc, resulting in two separately-listed companies. In preparation for the UK demerger process, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

#### Sale of £12.0 billion\* UK annuity portfolio

In March 2018, M&G Prudential also announced the sale of £12.0 billion\* of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion\* of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. Further details are set out in the CFO report.

\* Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.



## Statement of Directors' responsibilities in respect of the European Embedded Value (EEV) basis supplementary information

The Directors have chosen to prepare supplementary information in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum ('the EEV Principles') using the methodology and assumptions set out in the Notes on the EEV basis results.

When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the Embedded Value Methodology (EVM) contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles.

In preparing the EEV supplementary information, the Directors have:

- Prepared the supplementary information in accordance with the EEV Principles;
- Identified and described the business covered by the EVM;
- Applied the EVM consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- Made estimates that are reasonable and consistent; and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements.

# Independent auditor's report to Prudential plc on the European Embedded Value (EEV) basis supplementary information

## Opinions and conclusions arising from our audit

### Our opinion on the EEV basis supplementary information is unmodified

We have audited the EEV basis supplementary information of Prudential plc (the Company) for the year ended 31 December 2017 set out in the EEV basis results and Notes on the EEV basis results pages. The EEV basis supplementary information should be read in conjunction with the Group financial statements.

In our opinion, the EEV basis supplementary information of the Company for the year ended 31 December 2017 has been properly prepared, in all material respects, in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum ('the EEV Principles') using the methodology and assumptions set out in the Notes on the EEV basis results.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 359, the directors have accepted responsibility for the preparation of the supplementary information on the EEV basis in accordance with the EEV Principles.

Our responsibility is to audit, and express an opinion on, the supplementary information in accordance with the terms of our engagement and in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a). This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

## The purpose of this report and restrictions on its use by persons other than the Company

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.



### Philip Smart

for and on behalf of KPMG LLP  
Chartered Accountants  
London

14 March 2018



# 07

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## I: IFRS profit and loss information

### I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

- **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
- **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.
- **With-profits** business represents the gross of tax shareholders' transfer from the with-profits fund for the year.
- **Insurance margin** primarily represents profits derived from the insurance risks of mortality and morbidity.
- **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.
- **Acquisition costs and administration expenses** represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance, as well as items that are more appropriately included in other sources of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
- **DAC adjustments** comprise DAC amortisation for the year, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

### Analysis of pre-tax IFRS operating profit by source and margin analysis of Group long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other relevant drivers. Details on the calculation of the Group's average policyholder liability balances are given in note (iv) at the end of this section.

	2017 £m				Average liability note (iv)	Total bps note (ii)
	Asia	US	UK and Europe	Total		
Spread income	220	751	137	1,108	88,908	125
Fee income	199	2,343	61	2,603	166,839	156
With-profits	59	–	288	347	136,474	25
Insurance margin	1,310	906	55	2,271		
Margin on revenues	2,097	–	189	2,286		
Expenses:						
Acquisition costs <sup>note (i)</sup>	(1,489)	(876)	(68)	(2,433)	6,958	(35)%
Administration expenses	(959)	(1,174)	(164)	(2,297)	261,114	(88)
DAC adjustments <sup>note (v)</sup>	241	260	4	505		
Expected return on shareholder assets	121	4	104	229		
	1,799	2,214	606	4,619		
Longevity reinsurance and other management actions to improve solvency			276	276		
Changes in longevity assumption basis			204	204		
Provision for review of past annuity sales			(225)	(225)		
Long-term business operating profit based on longer-term investment returns	1,799	2,214	861	4,874		

See notes at the end of this section.

## Additional unaudited financial information continued

### I: IFRS profit and loss information continued

#### I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver continued

	2016 AER £m				Average liability note (iv)	Total bps note (ii)
	Asia	US	UK and Europe	Total		
Spread income	192	802	177	1,171	83,054	141
Fee income	174	1,942	59	2,175	139,451	156
With-profits	48	–	269	317	118,334	27
Insurance margin	1,040	888	63	1,991		
Margin on revenues	1,919	–	207	2,126		
Expenses:						
Acquisition costs <sup>note (i)</sup>	(1,285)	(877)	(89)	(2,251)	6,320	(36)%
Administration expenses	(832)	(959)	(152)	(1,943)	229,477	(85)
DAC adjustments <sup>note (v)</sup>	148	244	(2)	390		
Expected return on shareholder assets	99	12	110	221		
	1,503	2,052	642	4,197		
Longevity reinsurance and other management actions to improve solvency			332	332		
Provision for review of past annuity sales			(175)	(175)		
Long-term business operating profit based on longer-term investment returns	1,503	2,052	799	4,354		

See notes at the end of this section.

	2016 CER £m note (iii)				Average liability note (iv)	Total bps note (ii)
	Asia	US	UK and Europe	Total		
Spread income	201	837	177	1,215	85,266	142
Fee income	181	2,040	59	2,280	145,826	156
With-profits	50	–	269	319	119,170	27
Insurance margin	1,087	933	63	2,083		
Margin on revenues	2,004	–	207	2,211		
Expenses:						
Acquisition costs <sup>note (i)</sup>	(1,343)	(921)	(89)	(2,353)	6,574	(36)%
Administration expenses	(866)	(1,007)	(152)	(2,025)	238,392	(85)
DAC adjustments <sup>note (v)</sup>	153	260	(2)	411		
Expected return on shareholder assets	104	13	110	227		
	1,571	2,155	642	4,368		
Longevity reinsurance and other management actions to improve solvency			332	332		
Provision for review of past annuity sales			(175)	(175)		
Long-term business operating profit based on longer-term investment returns	1,571	2,155	799	4,525		

See notes at the end of this section.

## Margin analysis of long-term insurance business – Asia

	Asia								
	2017			2016 AER			2016 CER note (iii)		
	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
<b>Long-term business</b>									
Spread income	220	16,359	134	192	13,299	144	201	13,980	144
Fee income	199	18,767	106	174	15,643	111	181	16,475	110
With-profits	59	30,115	20	48	22,823	21	50	23,659	21
Insurance margin	1,310			1,040			1,087		
Margin on revenues	2,097			1,919			2,004		
Expenses:									
Acquisition costs <sup>note (i)</sup>	(1,489)	3,805	(39)%	(1,285)	3,599	(36)%	(1,343)	3,773	(36)%
Administration expenses	(959)	35,126	(273)	(832)	28,942	(287)	(866)	30,455	(284)
DAC adjustments <sup>note (v)</sup>	241			148			153		
Expected return on shareholder assets	121			99			104		
Operating profit based on longer-term investment return	1,799			1,503			1,571		

See notes at the end of this section.

### Analysis of Asia operating profit drivers:

- Spread income has increased on a constant exchange rate basis by 9 per cent (AER: 15 per cent) to £220 million in 2017, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
- Fee income has increased by 10 per cent at constant exchange rates (AER: 14 per cent) to £199 million in 2017, broadly in line with the increase in movement in average unit-linked liabilities.
- Insurance margin has increased by 21 per cent to £1,310 million in 2017 on a constant exchange rate basis (AER: 26 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.
- Margin on revenues has increased by £93 million on a constant exchange rate basis from £2,004 million in 2016 to £2,097 million in 2017, primarily reflecting growth of the in-force book and higher regular premium income recognised in the year.
- Acquisition costs have increased by 11 per cent at constant exchange rates (AER: 16 per cent) to £1,489 million, compared to the 1 per cent increase in APE sales, resulting in an increase in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 66 per cent (2016: 70 per cent at CER), the decrease being the result of product and country mix.
- Administration expenses including renewal commissions have increased by 11 per cent at a constant exchange rate basis (AER: 15 per cent increase) in 2017 as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has decreased from 284 basis points in 2016 to 273 basis points in 2017, the result of changes in country and product mix.

## Additional unaudited financial information continued

### I: IFRS profit and loss information continued

#### I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver continued

##### Margin analysis of long-term insurance business – US

	US								
	2017			2016 AER			2016 CER note (iii)		
	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
<b>Long-term business</b>									
Spread income	751	38,918	193	802	37,044	217	837	38,575	217
Fee income	2,343	125,440	187	1,942	102,027	190	2,040	107,570	190
Insurance margin	906			888			933		
Expenses									
Acquisition costs <sup>note (i)</sup>	(876)	1,662	(53)%	(877)	1,561	(56)%	(921)	1,641	(56)%
Administration expenses	(1,174)	169,725	(69)	(959)	146,043	(66)	(1,007)	153,445	(66)
DAC adjustments	260			244			260		
Expected return on shareholder assets	4			12			13		
Operating profit based on longer-term investment returns	2,214			2,052			2,155		

See notes at the end of this section.

#### Analysis of US operating profit drivers:

- Spread income has decreased by 10 per cent at constant exchange rates (AER: decreased by 6 per cent) to £751 million during 2017. The reported spread margin decreased to 193 basis points from 217 basis points in 2016, due to lower yields in the investment portfolio. Spread income benefited from swap transactions previously entered into so that asset and liability duration can be more closely matched. Excluding this effect, the spread margin would have been 144 basis points (2016 CER: 152 basis points and AER: 153 basis points).
- Fee income has increased by 15 per cent at constant exchange rates (AER: increased by 21 per cent) to £2,343 million during 2017, primarily due to higher average separate account balances due to positive net flows from variable annuity business and market appreciation during the year.
- Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin decreased to £906 million in 2017 from £933 million in 2016 on a constant exchange rate basis, with higher income from the variable annuity guarantees being more than offset by a decline in the contribution from the closed books of business.
- Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 5 per cent at a constant exchange rate basis, largely due to the continued increase in producers selecting asset-based commissions, which are paid upon policy anniversary dates and are treated as an administration expense in this analysis, rather than front end commissions.
- Administration expenses increased to £1,174 million during 2017, compared to £1,007 million for 2016 at a constant exchange rate (AER: £959 million), primarily as a result of higher asset based commissions. Excluding these asset-based commissions, the resulting administration expense ratio was relatively flat at 35 basis points (2016: 34 basis points at CER and AER).



## Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	2017 £m				2016 AER £m				2016 CER £m note (iii)			
	Acquisition costs				Acquisition costs				Acquisition costs			
	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total	Other operating profits	Incurred	Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	2,830			2,830	2,685			2,685	2,816			2,816
Less new business strain		(876)	663	(213)		(877)	678	(199)		(921)	716	(205)
Other DAC adjustments – amortisation of previously deferred acquisition costs:												
Normal (Accelerated)/Decelerated			(489)	(489)			(527)	(527)		(554)		(554)
			86	86			93	93			98	98
<b>Total</b>	<b>2,830</b>	<b>(876)</b>	<b>260</b>	<b>2,214</b>	<b>2,685</b>	<b>(877)</b>	<b>244</b>	<b>2,052</b>	<b>2,816</b>	<b>(921)</b>	<b>260</b>	<b>2,155</b>

## Analysis of operating profit based on longer-term investment returns for US operations by product

	2017 £m		2016 £m		%	
		AER	CER	2017 vs 2016		
				AER	CER	
Spread business <sup>note (a)</sup>	317	323	339	(2)%	(6)%	
Fee business <sup>note (b)</sup>	1,788	1,523	1,601	17%	12%	
Life and other business <sup>note (c)</sup>	109	206	216	(47)%	(50)%	
<b>Total insurance operations</b>	<b>2,214</b>	<b>2,052</b>	<b>2,156</b>	<b>8%</b>	<b>3%</b>	
US asset management and broker-dealer	10	(4)	(4)	350%	350%	
<b>Total US operations</b>	<b>2,224</b>	<b>2,048</b>	<b>2,152</b>	<b>9%</b>	<b>3%</b>	

The analysis of operating profit based on longer-term investment returns for US operations by product represents the net profit generated by each line of business after allocation of costs. Broadly:

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.

b) Fee business represents profits from variable annuity products. As well as fee income, revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.

c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

## Additional unaudited financial information continued

### I: IFRS profit and loss information continued

#### I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver continued

##### Margin analysis of long-term insurance business – UK and Europe

	UK and Europe					
	2017			2016		
	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
<b>Long-term business</b>						
Spread income	137	33,631	41	177	32,711	54
Fee income	61	22,632	27	59	21,781	27
With-profits	288	106,359	27	269	95,511	28
Insurance margin	55			63		
Margin on revenues	189			207		
Expenses:						
Acquisition costs <sup>note (i)</sup>	(68)	1,491	(5)%	(89)	1,160	(8)%
Administration expenses	(164)	56,263	(29)	(152)	54,492	(28)
DAC adjustments	4			(2)		
Expected return on shareholder assets	104			110		
	606			642		
Longevity reinsurance and other management actions to improve solvency	276			332		
Changes in longevity assumption basis	204			–		
Provision for review of past annuity sales	(225)			(175)		
Operating profit based on longer-term investment returns	861			799		

See notes at the end of this section.

### Analysis of UK and Europe operating profit drivers:

- Spread income reduced from £177 million in 2016 to £137 million in 2017, mainly due to lower annuity sales. Spread income has two components:
  - A contribution from new annuity business which was lower at £9 million in 2017 compared to £41 million in 2016, reflecting our effective withdrawal from this market.
  - A contribution from in-force annuity and other business, which was broadly in line with last year at £128 million (2016: £136 million), equivalent to 38 basis points of average reserves (2016: 42 basis points).
- Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 39 bps (2016: 40 bps).
- Margin on revenues represents premium charges for expenses of shareholder-backed business and other sundry net income.
- Acquisition costs decreased from £89 million in 2016 to £68 million in 2017, equivalent to 5 per cent of total APE sales in 2017 (2016: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profits business in the year. Acquisition costs expressed as a percentage of shareholder-backed APE sales remained broadly consistent at 38 per cent (2016: 37 per cent).
- The contribution from longevity reinsurance and other management actions to improve solvency during 2017 was £276 million (2016: £332 million). Further explanation and analysis is provided in Additional unaudited financial information section I(d).
- The £204 million favourable longevity assumption changes reflect the adoption of the Continuous Mortality Investigation 2015 model. Further information on changes to mortality assumptions is given in note C4.1 (d).
- The 2017 increase in the provision for the cost of undertaking a review of past non-advised annuity sales and related potential redress of £225 million (2016: £175 million) is explained in note C11, 'Provisions'.

#### Notes to sources of earnings tables

- (i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.
- (ii) Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.
- (iii) The 2016 comparative information has been presented at AER and CER so as to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates. For Asia CER average liability calculations, the policyholder liabilities have been translated using current year opening and closing exchange rates. For the US CER average liability calculations, the policyholder liabilities have been translated at the current year month end closing exchange rates. See also note A1.
- (iv) For UK and Europe and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is generally derived from month end balances throughout the year, as opposed to opening and closing balances only. The average liabilities for fee income in Jackson have been calculated using daily balances instead of month end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the year.
- (v) The DAC adjustments contain a credit of £43 million in respect of joint ventures and an associate in 2017 (2016: AER credit of £28 million).

## Additional unaudited financial information continued

### I: IFRS profit and loss information continued

#### I(b) Asia operations – analysis of IFRS operating profit by business unit

Operating profit based on longer-term investment returns for Asia operations is analysed as follows:

	2017 £m	AER 2016 £m	CER 2016 £m	2016 AER vs 2017	2016 CER vs 2017
Hong Kong	346	238	250	45%	38%
Indonesia	457	428	447	7%	2%
Malaysia	171	147	149	16%	15%
Philippines	41	38	37	8%	11%
Singapore	272	235	247	16%	10%
Thailand	107	92	100	16%	7%
Vietnam	135	114	117	18%	15%
<b>South-east Asia Operations including Hong Kong</b>	<b>1,529</b>	<b>1,292</b>	<b>1,347</b>	<b>18%</b>	<b>14%</b>
China	91	64	66	42%	38%
Taiwan	43	35	39	23%	10%
Other	64	49	53	31%	21%
Non-recurrent items <sup>note (ii)</sup>	75	67	70	12%	7%
<b>Total insurance operations<sup>note (i)</sup></b>	<b>1,802</b>	<b>1,507</b>	<b>1,575</b>	<b>20%</b>	<b>14%</b>
Development expenses	(3)	(4)	(4)	25%	25%
<b>Total long-term business operating profit</b>	<b>1,799</b>	<b>1,503</b>	<b>1,571</b>	<b>20%</b>	<b>15%</b>
Asset management (Eastspring Investments)	176	141	149	25%	18%
<b>Total Asia operations<sup>note (iii)</sup></b>	<b>1,975</b>	<b>1,644</b>	<b>1,720</b>	<b>20%</b>	<b>15%</b>

#### Notes

(i) Analysis of operating profit between new and in-force business

The result for insurance operations comprises amounts in respect of new business and business in force as follows:

	2017 £m	2016 £m	
		AER	CER
New business*	16	(29)	(30)
Business in force	1,711	1,469	1,535
Non-recurrent items <sup>note (ii)</sup>	75	67	70
<b>Total</b>	<b>1,802</b>	<b>1,507</b>	<b>1,575</b>

\* The IFRS new business result corresponds to approximately 0.4 per cent of new business APE premiums for 2017 (2016: approximately (0.8) per cent of new business APE).

The new business result reflects the aggregate of the pre-tax regulatory basis result to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

(ii) In 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £75 million (2016: £67 million) representing a small number of individually minor items.

### I(c) Analysis of asset management operating profit based on longer-term investment returns

	2017 £m	
	M&G Prudential asset management note (ii)	Eastspring Investments note (ii)
Operating income before performance-related fees	1,034	421
Performance-related fees	53	17
Operating income (net of commission) <sup>note (i)</sup>	1,087	438
Operating expense <sup>note (i)</sup>	(602)	(238)
Share of associate's results	15	–
Group's share of tax on joint ventures' operating profit	–	(24)
Operating profit based on longer-term investment returns	500	176
Average funds under management	£275.9bn	£128.4bn
Margin based on operating income*	37bps	33bps
Cost/income ratio <sup>†</sup>	58%	56%

	2016 £m	
	M&G Prudential asset management note (ii)	Eastspring Investments note (ii)
Operating income before performance-related fees	923	353
Performance-related fees	33	7
Operating income (net of commission) <sup>note (i)</sup>	956	360
Operating expense <sup>note (i)</sup>	(544)	(198)
Share of associate's results	13	–
Group's share of tax on joint ventures' operating profit	–	(21)
Operating profit based on longer-term investment returns	425	141
Average funds under management	£250.4bn	£109.0bn
Margin based on operating income*	37bps	32bps
Cost/income ratio <sup>†</sup>	59%	56%

#### Notes

- (i) Operating income and expense includes the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in note B1.6 of the IFRS financial statements, these amounts are netted and tax deducted and shown as a single amount.
- (ii) M&G Prudential asset management and Eastspring Investments can be further analysed as follows:

	M&G Prudential asset management					
	Operating income before performance-related fees					
	Retail £m	Margin of FUM* bps	Institu- tional <sup>‡</sup> £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
2017	604	85	430	21	1,034	37
2016	504	86	419	22	923	37

	Eastspring Investments					
	Operating income before performance-related fees					
	Retail £m	Margin of FUM* bps	Institu- tional <sup>‡</sup> £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
2017	249	57	172	20	421	33
2016	211	58	142	20	353	32

\* Margin represents operating income before performance-related fees as a proportion of the related funds under management (FUM). Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations that are managed by third parties outside the Prudential Group are excluded from these amounts.

† Cost/income ratio represents cost as a percentage of operating income before performance-related fees.

‡ Institutional includes internal funds.

## Additional unaudited financial information continued

### I: IFRS profit and loss information continued

#### I(d) Contribution to UK life financial metrics from specific management actions undertaken to position the balance sheet more efficiently under the Solvency II regime

In 2017, further management actions were taken to improve the solvency of the UK and Europe insurance operations and to mitigate market risks. These actions included extending the reinsurance of longevity risk to cover a further £0.5 billion of IFRS annuity liabilities. As at 31 December 2017, the total IFRS annuity liabilities subject to longevity reinsurance were £14.4 billion. Management actions also repositioned the fixed income asset portfolio to improve the trade-off between yield and credit risk.

The effect of these actions on the UK's long-term IFRS operating profit, underlying free surplus generation and EEV operating profit before restructuring costs is shown in the tables below.

#### IFRS operating profit of UK long-term business\*

	2017 £m	2016 £m
Shareholder-backed annuity new business	9	41
In-force business:		
Longevity reinsurance transactions	31	197
Other management actions to improve solvency	245	135
Changes in longevity assumption basis	204	–
Provision for the review of past annuity sales	(225)	(175)
	255	157
With-profits and other in-force	597	601
<b>Total</b>	<b>861</b>	<b>799</b>

#### Underlying free surplus generation of UK long-term business\*

	2017 £m	2016 £m
Expected in-force and return on net worth	706	693
Longevity reinsurance transactions	15	126
Other management actions to improve solvency	385	225
Changes in longevity assumption basis	179	–
Provision for the review of past annuity sales	(187)	(145)
	392	206
Changes in operating assumptions and experience variances	(28)	24
Underlying free surplus generated from in-force business	1,070	923
New business strain	(175)	(129)
<b>Total</b>	<b>895</b>	<b>794</b>

#### EEV post-tax operating profit of UK long-term business\*

	2017 £m	2016 £m
Unwind of discount and other expected return	465	445
Longevity reinsurance transactions	(6)	(90)
Other management actions to improve solvency	127	110
Changes in longevity assumption basis	195	–
Provision for the review of past annuity sales	(187)	(145)
	129	(125)
Changes in operating assumptions and experience variances	79	55
Operating profit from in-force business	673	375
New business profit	342	268
<b>Total</b>	<b>1,015</b>	<b>643</b>

\* Before restructuring costs.

## II Other information

### II(a) Holding company cash flow\*

	2017 £m	2016 £m
<b>Net cash remitted by business units:</b>		
<b>Total Asia net remittances to the Group</b>	645	516
<b>US net remittances to the Group</b>	475	420
<b>UK and Europe net remittances to the Group</b>		
With-profits remittance	215	215
Shareholder-backed insurance business remittance	105	85
Asset management remittance	323	290
Other UK paid to the Group (including Prudential Capital) <sup>4</sup>	25	192
<b>Total UK net remittances to the Group</b>	668	782
<b>Net remittances to the Group from business units<sup>1</sup></b>	1,788	1,718
Net interest paid	(415)	(333)
Tax received	152	132
Corporate activities	(207)	(215)
<b>Total central outflows</b>	(470)	(416)
<b>Operating holding company cash flow before dividend</b>	1,318	1,302
Dividend paid	(1,159)	(1,267)
<b>Operating holding company cash flow after dividend*</b>	159	35
Non-operating net cash flow <sup>2</sup>	(511)	335
<b>Total holding company cash flow</b>	(352)	370
Cash and short-term investments at beginning of year	2,626	2,173
Foreign exchange movements	(10)	83
<b>Cash and short-term investments at end of year<sup>3</sup></b>	2,264	2,626

\* The holding company cash flow differs from the IFRS cash flow statement, which includes all cash flows in the period including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

- 1 Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
- 2 Non-operating net cash flow principally relates to the repayment of subordinated debt net of the proceeds from that issued in the year, and payments for distribution rights and acquisition of subsidiaries.
- 3 Including central finance subsidiaries.
- 4 2016 remittance principally represents the outcome of actions completed in that year that facilitated access to central resources previously held at intermediary, holding and other companies.

## Additional unaudited financial information continued

### II Other information continued

#### II(b) Funds under management

##### (a) Summary

For our asset management businesses, funds managed on behalf of third parties are not recorded on the balance sheet. They are, however, a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing on those which are external to the Group and those primarily held by the insurance businesses. The table below analyses, by segment, the funds of the Group held in the statement of financial position and the external funds that are managed by Prudential's asset management operations.

	2017 £bn	2016 £bn
Business area:		
Asia operations:		
Internal funds	81.4	69.6
Eastspring Investments' external funds	55.9	45.7
	137.3	115.3
US operations – internal funds	178.3	173.3
M&G Prudential:		
Internal funds, including PruFund-backed products	186.8	174.0
External funds	163.9	136.8
	350.7	310.8
Other operations	3.0	2.9
<b>Total funds under management<sup>note</sup></b>	<b>669.3</b>	<b>602.3</b>

##### Note

Total funds under management comprise:

	2017 £bn	2016 £bn
Total investments per the consolidated statement of financial position	451.4	421.7
External funds of M&G Prudential and Eastspring Investments (as analysed in note b)	219.8	182.5
Internally managed funds held in joint ventures and other adjustments	(1.9)	(1.9)
<b>Prudential Group funds under management</b>	<b>669.3</b>	<b>602.3</b>

#### (b) Investment products – external funds under management

	2017 £m					2016 £m				
	At 1 Jan 2017	Market gross inflows	Redemptions	Market and other movements	At 31 Dec 2017	At 1 Jan 2016	Market gross inflows	Redemptions	Market and other movements	At 31 Dec 2016
M&G Prudential Wholesale/ Direct	64,209	30,949	(19,906)	4,445	79,697	60,801	15,785	(22,038)	9,661	64,209
M&G Prudential Institutional	72,554	15,220	(8,926)	5,310	84,158	65,604	7,056	(8,893)	8,787	72,554
Total M&G Prudential <sup>1</sup>	136,763	46,169	(28,832)	9,755	163,855	126,405	22,841	(30,931)	18,448	136,763
Eastspring Investments	45,756	215,907	(211,271)	5,493	55,885	36,287	164,004	(161,766)	7,231	45,756
<b>Total<sup>2</sup></b>	<b>182,519</b>	<b>262,076</b>	<b>(240,103)</b>	<b>15,248</b>	<b>219,740</b>	<b>162,692</b>	<b>186,845</b>	<b>(192,697)</b>	<b>25,679</b>	<b>182,519</b>

##### Notes

- The results exclude contribution from PruFund products (net inflows of £9.0 billion in 2017; funds under management of £35.9 billion as at 31 December 2017, £24.7 billion as at 31 December 2016).
- The £219.7 billion (2016: £182.5 billion) investment products comprise £210.4 billion (2016: £174.8 billion) plus Asia Money Market Funds of £9.3 billion (2016: £7.7 billion).



### (c) M&G and Eastspring Investments – total funds under management

M&G, the asset management business of M&G Prudential and Eastspring Investments, the Group's asset management business in Asia, manage funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds under management managed by M&G and Eastspring Investments respectively.

	M&G		Eastspring Investments	
	2017 £bn	2016 £bn	2017 £bn note	2016 £bn note
External funds under management	163.9	136.8	55.9	45.7
Internal funds under management	134.6	128.1	83.0	72.2
<b>Total funds under management</b>	<b>298.5</b>	<b>264.9</b>	<b>138.9</b>	<b>117.9</b>

#### Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 31 December 2017 of £9.3 billion (2016: £7.7 billion).

### II(c) Return on IFRS shareholders' funds

Return on IFRS shareholders' funds is calculated as operating profit based on longer-term investment returns net of tax and non-controlling interests divided by opening shareholders' funds. Operating profit based on longer-term investment returns is reconciled to IFRS profit before tax in note B1 to the IFRS financial statements.

	Note	2017 £m	2016 £m
Operating profit based on longer-term investment returns, net of tax and non-controlling interests	B5	3,727	3,362
Opening shareholders' funds		14,666	12,955
<b>Return on shareholders' funds</b>		<b>25%</b>	<b>26%</b>

### II(d) IFRS gearing ratio

Gearing ratio is calculated as net core structural borrowings of shareholder-financed operations divided by closing IFRS shareholders' funds plus net core structural borrowings.

	Note	2017 £m	2016 £m
Core structural borrowings of shareholder-financed operations	C6.1	6,280	6,798
Less holding company cash and short-term investments	II(a)	(2,264)	(2,626)
<b>Net core structural borrowings of shareholder-financed operations</b>		<b>4,016</b>	<b>4,172</b>
Closing shareholders' funds		16,087	14,666
<b>Shareholders' funds plus net core structural borrowings</b>		<b>20,103</b>	<b>18,838</b>
<b>Gearing ratio</b>		<b>20%</b>	<b>22%</b>

### II(e) IFRS shareholders' funds per share

IFRS shareholders' funds per share is calculated as closing IFRS shareholders' funds divided by the number of issued shares at the balance sheet date.

	2017	2016
Closing shareholders' funds (£ million)	16,087	14,666
Number of issued shares at year end (millions)	2,587	2,581
<b>Shareholders' funds per share (pence)</b>	<b>622</b>	<b>568</b>

## Additional unaudited financial information continued

### II Other information continued

#### II(f) Solvency II capital position at 31 December 2017

The estimated Group shareholder Solvency II surplus at 31 December 2017 was £13.3 billion, before allowing for payment of the 2017 second interim ordinary dividend and reflects approved regulatory transitional measures as at 31 December 2017.

	31 Dec 2017 £bn	31 Dec 2016 £bn
Own Funds	26.4	24.8
Solvency Capital Requirement	13.1	12.3
<b>Surplus</b>	<b>13.3</b>	<b>12.5</b>
Solvency ratio	202%	201%

\* The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profit funds and staff pension schemes in surplus. The solvency positions include management's estimates of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

In accordance with Solvency II requirements, these results allow for:

- Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:
  - Own funds: represents Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level);
  - Solvency Capital Requirement: represents 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level); and
  - No diversification benefits are taken into account between Jackson and the rest of the Group.
- Matching adjustment for UK annuities and volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority; and
- UK transitional measures, which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority and this recalculation will therefore be reflected in the formal regulatory Quantitative Reporting Templates as at 31 December 2017.

The Group shareholder Solvency II capital position excludes:

- A portion of Solvency II surplus capital (£1.7 billion at 31 December 2017) relating to the Group's Asian life operations, including due to the Solvency II definition of 'contract boundaries', which prevents some expected future cash flows from being recognised;
- The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £4.8 billion of surplus capital from UK with-profits funds at 31 December 2017) and from the shareholders' share of the estate of with-profits funds; and
- The contribution to Own Funds and the Solvency Capital Requirement from pension funds in surplus.

It also excludes unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates. At Jackson's request, the Department of Insurance Financial Services renewed its approval to carry these instruments at book value in the local statutory returns for the period 31 December 2017 to 1 October 2018. At 31 December 2017, this approval had the effect of decreasing local statutory capital and surplus (and by extension Solvency II Own Funds and Solvency II surplus) by £0.4 billion, net of tax. This arrangement reflects an elective long-standing practice first put in place in 2009, which can be unwound at Jackson's discretion.

The 31 December 2017 Solvency II results above allow for the completion of the sale of the Korea life business and sale of the US broker-dealer network in 2017, which contributes £0.1 billion to the Group Solvency II surplus. The results also allow for the impact of US tax reforms enacted in December 2017, which reduce the Group Solvency II surplus by £0.6 billion.

Further information on the Solvency II capital position for the Group and The Prudential Assurance Company Limited is published annually in the Solvency and Financial Condition Reports. These were last published on the Group's website on 18 May 2017.

### Analysis of movement in Group capital position

A summary of the estimated movement in Group Solvency II surplus from £12.5 billion at year end 2016 to £13.3 billion at year end 2017 is set out in the table below. The movement from the Group Solvency II surplus at 31 December 2015 to the Solvency II surplus at 31 December 2016 is included for comparison.

Analysis of movement in Group shareholder surplus	Full year 2017	Full year 2016
	Surplus £bn	Surplus £bn
<b>Estimated Solvency II surplus at beginning of period</b>	12.5	9.7
Underlying operating experience	3.2	2.3
Management actions	0.4	0.4
Operating experience	3.6	2.7
Non-operating experience (including market movements)	(0.6)	(1.1)
<b>Other capital movements</b>		
Subordinated debt issuance / redemption	(0.2)	1.2
Foreign currency translation impacts	(0.7)	1.6
Dividends paid	(1.2)	(1.3)
Model changes	(0.1)	(0.3)
<b>Estimated Solvency II surplus at end of period</b>	13.3	12.5

The estimated movement in Group Solvency II surplus over 2017 is driven by:

- *Operating experience of £3.6 billion*: generated by in-force business and new business written in 2017, after allowing for amortisation of the UK transitional and the impact of one-off management optimisations implemented over the period;
- *Non-operating experience of £(0.6) billion*: resulting mainly from the impact of US tax reform and market movements during 2017, after allowing for the recalculation of the UK transitional at the valuation date;
- *Other capital movements*: comprising a loss from foreign currency translation, the net impact of debt raised offset by debt redeemed during 2017 and a reduction in surplus from payment of dividends; and
- *Model changes*: reflecting minor calibration changes made to the internal model during 2017.

### Analysis of Group Solvency Capital Requirements

The split of the Group's estimated Solvency Capital Requirement by risk type including the capital requirements in respect of Jackson's risk exposures based on 150 per cent of US Risk Based Capital requirements (Company Action Level) but with no diversification between Jackson and the rest of the Group, is as follows:

Split of the Group's estimated Solvency Capital Requirements	31 Dec 2017		31 Dec 2016	
	% of undiversified Solvency Capital Requirements	% of diversified Solvency Capital Requirements	% of undiversified Solvency Capital Requirements	% of diversified Solvency Capital Requirements
<b>Market</b>	57%	71%	55%	68%
Equity	14%	23%	12%	19%
Credit	24%	38%	25%	41%
Yields (interest rates)	13%	7%	13%	7%
Other	6%	3%	5%	1%
<b>Insurance</b>	26%	21%	28%	23%
Mortality/morbidity	5%	2%	5%	2%
Lapse	14%	17%	16%	19%
Longevity	7%	2%	7%	2%
<b>Operational/expense</b>	11%	7%	11%	7%
<b>FX translation</b>	6%	1%	6%	2%

## Additional unaudited financial information continued

### II Other information continued

#### II(f) Solvency II capital position at 31 December 2017 continued

##### Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds	31 Dec 2017 £bn	31 Dec 2016 £bn
IFRS shareholders' equity	16.1	14.7
Restate US insurance entities from IFRS onto local US statutory basis	(3.0)	(2.2)
Remove DAC, goodwill and intangibles	(4.0)	(3.8)
Add subordinated debt	5.8	6.3
Impact of risk margin (net of transitionals)	(3.9)	(3.4)
Add value of shareholder transfers	5.3	4.0
Liability valuation differences	12.1	10.5
Increase in net deferred tax liabilities resulting from liability valuation differences above	(1.6)	(1.3)
Other	(0.4)	0.0
<b>Estimated Solvency II Shareholder Own Funds</b>	<b>26.4</b>	<b>24.8</b>

The key items of the reconciliation as at 31 December 2017 are:

- £3.0 billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a derecognition of Own Funds of £0.8 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;
- £4.0 billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
- £5.8 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;
- £3.9 billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of £2.3 billion from transitional measures (after allowing for recalculation of the transitional measures as at 31 December 2017) which are not applicable under IFRS;
- £5.3 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholders' share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group's IFRS shareholders' funds;
- £12.1 billion due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II Own Funds partially capturing the value of in-force business which is excluded from IFRS;
- £1.6 billion due to the impact on the valuation of net deferred tax liabilities resulting from the liability valuation differences noted above; and
- £0.4 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

#### Sensitivity analysis

The estimated sensitivity of the Group shareholder Solvency II capital position to significant changes in market conditions is as follows:

Impact of market sensitivities	31 Dec 2017		31 Dec 2016	
	Surplus £bn	Ratio	Surplus £bn	Ratio
<b>Base position</b>	<b>13.3</b>	<b>202%</b>	<b>12.5</b>	<b>201%</b>
<i>Impact of:</i>				
20% instantaneous fall in equity markets	0.7	9%	0.0	3%
40% fall in equity markets <sup>1</sup>	(2.1)	(11)%	(1.5)	(7)%
50 basis points reduction in interest rates <sup>2,3</sup>	(1.0)	(14)%	(0.6)	(9)%
100 basis points increase in interest rates <sup>3</sup>	1.2	21%	1.0	13%
100 basis points increase in credit spreads <sup>4</sup>	(1.4)	(6)%	(1.1)	(3)%

#### Notes

- 1 Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.
- 2 Subject to a floor of zero.
- 3 Allowing for further transitional recalculation after the interest rate stress.
- 4 US Risk Based Capital solvency position included using a stress of 10 times expected credit defaults.

The Group believes it is positioned to withstand significant deteriorations in market conditions and we continue to use market hedges to manage some of this exposure across the Group, where we believe the benefit of the protection outweighs the cost. The sensitivity analysis above allows for predetermined management actions and those taken to date, but does not reflect all possible management actions which could be taken in the future.

### UK Solvency II capital position<sup>1,2</sup>

On the same basis as above, the estimated shareholder Solvency II surplus for The Prudential Assurance Company Limited ('PAC') and its subsidiaries<sup>2</sup> at 31 December 2017 was £6.1 billion, after allowing for recalculation of transitional measures as at 31 December 2017. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

Estimated UK shareholder Solvency II capital position*	31 Dec 2017 £bn	31 Dec 2016 £bn
Own funds	14.0	12.0
Solvency capital requirement	7.9	7.4
<b>Surplus</b>	<b>6.1</b>	<b>4.6</b>
<b>Solvency ratio</b>	<b>178%</b>	<b>163%</b>

\* The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profit funds and staff pension schemes in surplus. The solvency positions include management's estimate of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

While there is a large surplus in the UK with-profits funds, this is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 31 December 2017 was £4.8 billion, after allowing for recalculation of transitional measures as at 31 December 2017.

Estimated UK with-profits Solvency II capital position*	31 Dec 2017 £bn	31 Dec 2016 £bn
Own funds	9.6	8.4
Solvency capital requirement	4.8	4.7
<b>Surplus</b>	<b>4.8</b>	<b>3.7</b>
<b>Solvency ratio</b>	<b>201%</b>	<b>179%</b>

\* The solvency positions include management's estimate of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

### Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds<sup>1</sup>

A reconciliation between the IFRS unallocated surplus and Solvency II Own Funds for UK with-profits business is as follows:

Reconciliation of UK with-profits funds	31 Dec 2017 £bn	31 Dec 2016 £bn
IFRS unallocated surplus of UK with-profits funds	13.5	11.7
<i>Adjustments from IFRS basis to Solvency II</i>		
Value of shareholder transfers	(2.7)	(2.3)
Risk margin (net of transitional)	(0.7)	(0.7)
Other valuation differences	(0.5)	(0.3)
<b>Estimated Solvency II Own Funds</b>	<b>9.6</b>	<b>8.4</b>

### Annual regulatory reporting

The Group will publish its Solvency and Financial Condition Report and related quantitative templates no later than 17 June 2018. The templates will require us to combine the Group shareholder solvency position with those of all other ring-fenced funds across the Group. In combining these solvency positions, the contribution to own funds from these ring-fenced funds will be set equal to their aggregate Solvency Capital Requirements, estimated at £6.6 billion (ie the solvency surplus in these ring-fenced funds will not be captured in the templates). There will be no impact on the reported Group Solvency II surplus.

### Statement of independent review in respect of Solvency II Capital Position at 31 December 2017

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

#### Notes

- 1 The UK with-profits capital position includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund.
- 2 The insurance subsidiaries of PAC are Prudential General Insurance Hong Kong Limited, Prudential Hong Kong Limited, Prudential International Assurance plc and Prudential Pensions Limited.

## Additional unaudited financial information continued

### II Other information continued

#### II(g) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus

The tables below show how the value of in-force business (VIF) generated by the in-force long-term business and the associated required capital is modelled as emerging into free surplus over the next 40 years. Although a small amount (less than 4 per cent) of the Group's embedded value emerges after this date, analysis of cash flows emerging in the years shown in the tables is considered most meaningful. The modelled cash flows use the same methodology underpinning the Group's embedded value reporting and so are subject to the same assumptions and sensitivities used to prepare our 2017 results.

In addition to showing the amounts, both discounted and undiscounted, expected to be generated from all in-force business at 31 December 2017, the tables also present the expected future free surplus to be generated from the investment made in new business during 2017 over the same 40-year period for long-term business operations.

#### (i) Expected transfer of value of in-force business (VIF) and required capital to free surplus

Expected period of emergence	31 Dec 2017 £m							
	Undiscounted expected generation from all in-force business*				Undiscounted expected generation from new business written†			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
2018	1,393	1,464	671	3,528	197	226	36	459
2019	1,352	1,425	685	3,462	182	113	38	333
2020	1,299	1,483	674	3,456	181	124	40	345
2021	1,256	1,551	660	3,467	162	155	43	360
2022	1,239	1,441	638	3,318	164	129	48	341
2023	1,202	1,433	618	3,253	139	65	44	248
2024	1,171	1,404	601	3,176	142	73	40	255
2025	1,149	1,277	580	3,006	136	179	39	354
2026	1,154	1,158	553	2,865	131	154	39	324
2027	1,109	1,051	526	2,686	141	138	38	317
2028	1,066	897	499	2,462	121	125	36	282
2029	1,032	840	473	2,345	125	114	32	271
2030	1,003	731	448	2,182	116	99	31	246
2031	980	612	422	2,014	117	89	30	236
2032	971	514	532	2,017	134	78	30	242
2033	919	325	498	1,742	112	51	28	191
2034	898	333	467	1,698	113	32	26	171
2035	885	189	434	1,508	112	29	25	166
2036	868	140	402	1,410	111	23	23	157
2037	854	90	370	1,314	120	21	22	163
2038 to 2042	4,252	286	1,401	5,939	581	–	83	664
2043 to 2047	4,280	–	972	5,252	719	–	76	795
2048 to 2052	3,948	–	385	4,333	737	–	9	746
2053 to 2057	3,490	–	197	3,687	714	–	5	719
<b>Total free surplus expected to emerge in the next 40 years</b>	<b>37,770</b>	<b>18,644</b>	<b>13,706</b>	<b>70,120</b>	<b>5,507</b>	<b>2,017</b>	<b>861</b>	<b>8,385</b>

\* The analysis excludes amounts incorporated into VIF at 31 December 2017 where there is no definitive time frame for when the payments will be made or receipts received. In particular, it excludes the value of the shareholders' interest in the with-profits estate. It also excludes any free surplus emerging after 2057.

The above amounts can be reconciled to the new business amounts as follows:

	2017 £m			
	Asia	US	UK and Europe	Total
Undiscounted expected free surplus generation for years 2018 to 2057	5,507	2,017	861	8,385
Less: discount effect	(3,153)	(689)	(339)	(4,181)
Discounted expected free surplus generation for years 2018 to 2057	2,354	1,328	522	4,204
Discounted expected free surplus generation for years after 2057	442	–	1	443
Less: Free surplus investment in new business	(484)	(254)	(175)	(913)
Other items†	56	(168)	(6)	(118)
<b>Post-tax EEV new business profit for long-term business operations</b>	<b>2,368</b>	<b>906</b>	<b>342</b>	<b>3,616</b>

† Other items represent the impact of the time value of options and guarantees on new business, foreign exchange effects and other non-modelled items. Foreign exchange effects arise as EEV new business profit amounts are translated at average exchange rates and the expected free surplus generation uses year end closing rates.

The undiscounted expected free surplus generation from all in-force business at 31 December 2017 shown below can be reconciled to the amount that was expected to be generated as at 31 December 2016 as follows:

Group	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Other £m	Total £m
2016 expected free surplus generation for years 2017 to 2056	3,441	3,195	3,111	3,070	3,030	2,865	45,321	64,033
Less: Amounts expected to be realised in the current year	(3,441)	–	–	–	–	–	–	(3,441)
Add: Expected free surplus to be generated in year 2057*	–	–	–	–	–	–	578	578
Foreign exchange differences	–	(180)	(176)	(176)	(175)	(163)	(2,225)	(3,095)
New business	–	459	333	345	360	341	6,547	8,385
Operating movements	–	(130)	(96)	(63)	(34)	(5)		
Non-operating and other movements	–	184	290	280	286	280	2,668	3,660
2017 expected free surplus generation for years 2018 to 2057	–	3,528	3,462	3,456	3,467	3,318	52,889	70,120
<b>Asia</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2020 £m</b>	<b>2021 £m</b>	<b>2022 £m</b>	<b>Other £m</b>	<b>Total £m</b>
2016 expected free surplus generation for years 2017 to 2056	1,320	1,247	1,202	1,167	1,142	1,122	27,080	34,280
Less: Amounts expected to be realised in the current year	(1,320)	–	–	–	–	–	–	(1,320)
Add: Expected free surplus to be generated in year 2057*	–	–	–	–	–	–	540	540
Foreign exchange differences	–	(69)	(66)	(65)	(64)	(63)	(1,511)	(1,838)
New business	–	197	182	181	162	164	4,621	5,507
Operating movements	–	11	15	–	(8)	(17)		
Non-operating and other movements	–	7	19	16	24	33	501	601
2017 expected free surplus generation for years 2018 to 2057	–	1,393	1,352	1,299	1,256	1,239	31,231	37,770
<b>US</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2020 £m</b>	<b>2021 £m</b>	<b>2022 £m</b>	<b>Other £m</b>	<b>Total £m</b>
2016 expected free surplus generation for years 2017 to 2056	1,446	1,279	1,273	1,281	1,282	1,152	8,257	15,970
Less: Amounts expected to be realised in the current year	(1,446)	–	–	–	–	–	–	(1,446)
Foreign exchange differences	–	(111)	(110)	(111)	(111)	(100)	(714)	(1,257)
New business	–	226	113	124	155	129	1,270	2,017
Operating movements	–	(72)	(48)	(8)	24	57		
Non-operating and other movements	–	142	197	197	201	203	2,467	3,360
2017 expected free surplus generation for years 2018 to 2057	–	1,464	1,425	1,483	1,551	1,441	11,280	18,644
<b>UK and Europe</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2020 £m</b>	<b>2021 £m</b>	<b>2022 £m</b>	<b>Other £m</b>	<b>Total £m</b>
2016 expected free surplus generation for years 2017 to 2056	675	669	636	622	606	591	9,984	13,783
Less: Amounts expected to be realised in the current year	(675)	–	–	–	–	–	–	(675)
Add: Expected free surplus to be generated in year 2057*	–	–	–	–	–	–	38	38
New business	–	36	38	40	43	48	656	861
Operating movements	–	(69)	(63)	(55)	(50)	(45)		
Non-operating and other movements	–	35	74	67	61	44	(300)	(301)
2017 expected free surplus generation for years 2018 to 2057	–	671	685	674	660	638	10,378	13,706

\* Excluding 2017 new business.

## Additional unaudited financial information continued

### II Other information continued

#### II(g) Reconciliation of expected transfer of value of in-force business (VIF) and required capital to free surplus continued

At 31 December 2017, the total free surplus expected to be generated over the next five years (2018 to 2022 inclusive), using the same assumptions and methodology as those underpinning our 2017 embedded value reporting was £17.2 billion, an increase of £1.4 billion from the £15.8 billion expected over an equivalent period from the end of 2016.

This increase primarily reflects the new business written in 2017, which is expected to generate £1,838 million of free surplus over the next five years.

At 31 December 2017, the total free surplus expected to be generated on an undiscounted basis in the next 40 years is £70.1 billion, up from the £64.0 billion expected at the end of 2016, reflecting the effect of new business written across all three business operations of £8.4 billion, a negative foreign exchange translation effect of £(3.1) billion and a £3.7 billion net effect reflecting operating, market assumption changes and other items. In Asia, these include the effect of changes in operating assumptions reflecting the net benefit arising from annual review of experience, together with the benefit of management actions. In the US, these mainly reflect the positive effect from persistency assumption updates and increase in equity market returns, together with the benefits from US tax reform, partially offset by lower future separate account return due to the decrease in interest rates. In the UK and Europe, these reflect the impact of management actions which had the effect of accelerating the generation of future free surplus into 2017, partially offset by higher than assumed investment returns on with-profits funds. The overall growth in the Group's undiscounted value of free surplus reflects our ability to write both growing and profitable new business.

Actual underlying free surplus generated in 2017 from life business in force before restructuring costs at the end of 2017 was £4.1 billion including £0.6 billion of changes in operating assumptions and experience variances. This compares with the expected 2017 realisation at the end of 2016 of £3.4 billion. This can be analysed further as follows:

	Asia £m	US £m	UK and Europe £m	Total £m
Transfer to free surplus in 2017	1,275	1,329	675	3,279
Expected return on free assets	51	56	31	138
Changes in operating assumptions and experience variances	81	190	364	635
<b>Underlying free surplus generated from in-force life business before restructuring costs in 2017</b>	<b>1,407</b>	<b>1,575</b>	<b>1,070</b>	<b>4,052</b>
2017 free surplus expected to be generated at 31 December 2016	1,320	1,446	675	3,441



The equivalent discounted amounts of the undiscounted expected transfers from in-force business and required capital into free surplus shown previously are as follows:

Expected period of emergence	31 Dec 2017 £m							
	Discounted expected generation from all in-force business				Discounted expected generation from new business written			
	Asia	US	UK and Europe	Total	Asia	US	UK and Europe	Total
2018	1,337	1,400	655	3,392	188	220	35	443
2019	1,218	1,282	645	3,145	161	103	36	300
2020	1,102	1,254	610	2,966	150	107	38	295
2021	997	1,234	573	2,804	127	124	39	290
2022	929	1,077	529	2,535	121	99	41	261
2023	845	1,008	487	2,340	98	46	36	180
2024	777	930	452	2,159	96	51	32	179
2025	718	795	415	1,928	86	112	30	228
2026	679	680	375	1,734	78	89	28	195
2027	619	580	337	1,536	80	75	25	180
2028	561	467	303	1,331	64	64	22	150
2029	515	410	272	1,197	62	54	20	136
2030	477	337	241	1,055	55	44	18	117
2031	445	268	212	925	52	37	16	105
2032	420	215	261	896	56	31	15	102
2033	376	124	229	729	45	24	13	82
2034	350	123	202	675	44	16	12	72
2035	329	72	176	577	42	14	10	66
2036	309	52	156	517	39	10	9	58
2037	291	30	136	457	42	8	7	57
2038-2042	1,314	117	465	1,896	180	–	30	210
2043-2047	1,101	–	117	1,218	192	–	7	199
2048-2052	837	–	89	926	166	–	2	168
2053-2057	593	–	33	626	130	–	1	131
Total discounted free surplus expected to emerge in the next 40 years	17,139	12,455	7,970	37,564	2,354	1,328	522	4,204

The above amounts can be reconciled to the Group's EEV basis financial statements as follows:

	31 Dec 2017 £m
Discounted expected generation from all in-force business for years 2018 to 2057	37,564
Discounted expected generation from all in-force business for years after 2057	1,576
Discounted expected generation from all in-force business at 31 December 2017	39,140
Add: Free surplus of life operations held at 31 December 2017	6,242
Less: Time value of guarantees	(836)
Other non-modelled items	1,371
Total EEV for long-term business operations	45,917

## Additional unaudited financial information continued

### II Other information continued

#### II(h) Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV metrics analysis by contribution by currency group:

#### 2017 Free surplus and Group IFRS results

	Underlying free surplus generated for total insurance and asset management operations %	Group IFRS pre-tax operating profit notes (2)(3) %	Group IFRS shareholders' funds notes (2)(3) %
US dollar linked <sup>note (1)</sup>	13%	24%	21%
Other Asia currencies	17%	18%	16%
Total Asia	30%	42%	37%
UK sterling <sup>notes (2)(3)</sup>	34%	11%	50%
US dollar <sup>note (3)</sup>	36%	47%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### 2017 Group EEV post-tax results

	New business profits %	Operating profit notes (2)(3) %	Shareholders' funds notes (2)(3) %
US dollar linked <sup>note (1)</sup>	54%	46%	37%
Other Asia currencies	12%	12%	11%
Total Asia	66%	58%	48%
UK sterling <sup>notes (2)(3)</sup>	9%	9%	29%
US dollar <sup>note (3)</sup>	25%	33%	23%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### Notes

- (1) US dollar linked comprise the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.
- (2) For operating profit and shareholders' funds, UK sterling includes amounts in respect of M&G Prudential and other operations (including central operations, Africa operations and Prudential Capital). Operating profit for central operations includes amounts for corporate expenditure for Group Head Office as well as Asia Regional Head Office which is incurred in HK dollars.
- (3) For shareholders' funds, the US dollar grouping includes US dollar denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

## II(i) Option schemes

The Group presently grants share options through four schemes, and exercises of the options are satisfied by the issue of new shares. Executive Directors and eligible employees based in the UK may participate in the UK savings-related share option scheme. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the international savings-related share option scheme, while agents based in certain regions of Asia can participate in the international savings-related share option scheme for non-employees. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, which currently has no outstanding options in issue. Further details of the schemes and accounting policies are detailed in note B2.2 of the IFRS basis consolidated financial statements.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the directors resolve to terminate the plans at an earlier date:

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 19 May 2021;
- Prudential International Assurance sharesave plan: 3 August 2019; and
- International savings-related share option scheme for non-employees 2012: 12 May 2022.

The weighted average share price of Prudential plc for the year ended 31 December 2017 was £17.51 (2016: £13.56).

Particulars of options granted to directors are included in the Directors' remuneration report on page 123.

The closing price of the shares immediately before the date on which the options were granted during the year was £17.67.

The following analyses show the movement in options for each of the option schemes for the year ended 31 December 2017.

### UK savings-related share option scheme

Date of grant	Exercise price £	Exercise period		Number of options						
		Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
16 Sep 11	4.66	01 Dec 16	31 May 17	36,006	–	(36,006)	–	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	119,886	–	(89,777)	–	(2,863)	(2,007)	25,239
20 Sep 13	9.01	01 Dec 16	31 May 17	73,812	–	(70,920)	–	(998)	(1,894)	–
20 Sep 13	9.01	01 Dec 18	31 May 19	70,258	–	(1,942)	(598)	(332)	(1,184)	66,202
23 Sep 14	11.55	01 Dec 17	31 May 18	759,088	–	(566,652)	(14,043)	(14,379)	(7,655)	156,359
23 Sep 14	11.55	01 Dec 19	31 May 20	390,761	–	(12,686)	(1,572)	(2,097)	(15,159)	359,247
22 Sep 15	11.11	01 Dec 18	31 May 19	933,241	–	(15,804)	(29,125)	(20,724)	(20,042)	847,546
22 Sep 15	11.11	01 Dec 20	31 May 21	223,807	–	(2,061)	(1,350)	(3,240)	(3,609)	213,547
21 Sep 16	11.04	01 Dec 19	31 May 20	719,147	–	(2,096)	(24,643)	(18,455)	(10,082)	663,871
21 Sep 16	11.04	01 Dec 21	31 May 22	164,428	–	(747)	(10,621)	(4,074)	(3,328)	145,658
21 Sep 17	14.55	01 Dec 20	31 May 21	–	817,979	–	(7,985)	(691)	–	809,303
21 Sep 17	14.55	01 Dec 22	31 May 23	–	138,385	–	(288)	–	–	138,097
				3,490,434	956,364	(798,691)	(90,225)	(67,853)	(64,960)	3,425,069

The total number of securities available for issue under the scheme is 3,425,069, which represents 0.132 per cent of the issued share capital at 31 December 2017.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £18.17.

The weighted average fair value of options granted under the plan in the period was £3.29.

## Additional unaudited financial information continued

### II Other information continued

#### II(i) Option schemes continued

##### International savings-related share option scheme

Date of grant	Exercise price £	Exercise period		Number of options						
		Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
16 Sep 11	4.66	01 Dec 16	31 May 17	722	–	(722)	–	–	–	–
21 Sep 12	6.29	01 Dec 15	31 May 16	2,725	–	(2,725)	–	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	14,501	–	(11,708)	(1,772)	(359)	–	662
20 Sep 13	9.01	01 Dec 16	31 May 17	131,680	–	(126,373)	(7)	(149)	(5,151)	–
20 Sep 13	9.01	01 Dec 18	31 May 19	43,676	–	(3,669)	(1,655)	–	–	38,352
23 Sep 14	11.55	01 Dec 17	31 May 18	7,709	–	(5,138)	–	(155)	(2)	2,414
23 Sep 14	11.55	01 Dec 19	31 May 20	4,464	–	–	–	–	–	4,464
22 Sep 15	11.11	01 Dec 18	31 May 19	23,556	–	–	–	–	–	23,556
22 Sep 15	11.11	01 Dec 20	31 May 21	3,240	–	–	–	–	–	3,240
21 Sep 16	11.04	01 Dec 19	31 May 20	15,516	–	–	–	–	–	15,516
21 Sep 17	14.55	01 Dec 20	31 May 21	–	12,542	–	–	–	–	12,542
21 Sep 17	14.55	01 Dec 22	31 May 23	–	3,298	–	–	–	–	3,298
				247,789	15,840	(150,335)	(3,434)	(663)	(5,153)	104,044

The total number of securities available for issue under the scheme is 104,044 which represents 0.004 per cent of the issued share capital at 31 December 2017.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.99.

The weighted average fair value of options granted under the plan in the period was £3.32.

##### Prudential International Assurance sharesave plan

There are no securities available for issue under the scheme at 31 December 2017.

##### Non-employee savings-related share option scheme

Date of grant	Exercise price £	Exercise period		Number of options						
		Beginning	End	Beginning of year	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of year
16 Sep 11	4.66	01 Dec 16	31 May 17	29,936	–	(29,936)	–	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	28,001	–	(12,737)	–	–	–	15,264
20 Sep 13	9.01	01 Dec 16	31 May 17	346,321	–	(338,560)	(7,761)	–	–	–
20 Sep 13	9.01	01 Dec 18	31 May 19	406,850	–	(365)	(4,992)	(13,243)	–	388,250
23 Sep 14	11.55	01 Dec 17	31 May 18	596,435	–	(331,618)	(18,378)	(8,802)	–	237,637
23 Sep 14	11.55	01 Dec 19	31 May 20	502,793	–	–	(25,456)	(5,192)	–	472,145
22 Sep 15	11.11	01 Dec 18	31 May 19	480,825	–	(121)	(18,074)	(10,287)	–	452,343
22 Sep 15	11.11	01 Dec 20	31 May 21	405,994	–	–	(13,662)	(8,370)	–	383,962
21 Sep 16	11.04	01 Dec 19	31 May 20	334,276	–	–	(3,749)	(815)	–	329,712
21 Sep 16	11.04	01 Dec 21	31 May 22	199,230	–	–	–	(815)	–	198,415
21 Sep 17	14.55	01 Dec 20	31 May 21	–	268,279	–	(618)	–	–	267,661
21 Sep 17	14.55	01 Dec 22	31 May 23	–	174,763	–	(412)	–	–	174,351
				3,330,661	443,042	(713,337)	(93,102)	(47,524)	–	2,919,740

The total number of securities available for issue under the scheme is 2,919,740 which represents 0.113 per cent of the issued share capital at 31 December 2017.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £17.67.

The weighted average fair value of options granted under the plan in the period was £3.41.

## II(j) Selected historical financial information of Prudential

The following table sets forth Prudential's selected consolidated financial data for the periods indicated. Certain data is derived from Prudential's audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU) and European Embedded Value (EEV).

This table is only a summary and should be read in conjunction with Prudential's consolidated financial statements and the related notes included elsewhere in this document.

### Income statement data

	Year ended 31 December				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
IFRS basis results					
Gross premium earned	44,005	38,981	36,663	32,832	30,502
Outward reinsurance premiums	(2,062)	(2,020)	(1,157)	(799)	(658)
Earned premiums, net of reinsurance	41,943	36,961	35,506	32,033	29,844
Investment return	42,189	32,511	3,304	25,787	20,347
Other income	2,430	2,370	2,495	2,306	2,184
Total revenue, net of reinsurance	86,562	71,842	41,305	60,126	52,375
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance	(72,532)	(59,366)	(29,656)	(50,169)	(43,154)
Acquisition costs and other expenditure	(10,165)	(8,848)	(8,208)	(6,752)	(6,861)
Finance costs: interest on core structural borrowings of shareholder-financed operations	(425)	(360)	(312)	(341)	(305)
Profit (loss) attaching to disposal of businesses	228	(238)	(46)	(13)	(120)
Total charges, net of reinsurance and profit (loss) attaching to disposal of businesses	(82,894)	(68,812)	(38,222)	(57,275)	(50,440)
Share of profits from joint ventures and associates, net of related tax	302	182	238	303	147
Profit before tax ( <i>being tax attributable to shareholders' and policyholders' returns</i> ) <sup>note 1</sup>	3,970	3,212	3,321	3,154	2,082
Tax charges attributable to policyholders' returns	(674)	(937)	(173)	(540)	(447)
Profit before tax attributable to shareholders	3,296	2,275	3,148	2,614	1,635
Tax charge attributable to shareholders' returns	(906)	(354)	(569)	(398)	(289)
Profit for the year	2,390	1,921	2,579	2,216	1,346
	2017	2016	2015	2014	2013
Based on profit for the year attributable to the equity holders of the Company:					
Basic earnings per share (in pence)	93.1p	75.0p	101.0p	86.9p	52.8p
Diluted earnings per share (in pence)	93.0p	75.0p	100.9p	86.8p	52.7p
Dividend per share declared and paid in reporting period (in pence)	45.07p	49.40p	38.05p	35.03p	30.52p
Interim ordinary dividend/final ordinary dividend	45.07p	39.40p	38.05p	35.03p	30.52p
Special dividend	–	10.00p	–	–	–

### Supplementary IFRS income statement data

	Year ended 31 December £m				
	2017	2016	2015	2014	2013
Operating profit based on longer-term investment returns <sup>note 2</sup>	4,699	4,256	3,969	3,154	2,937
Non-operating items	(1,403)	(1,981)	(821)	(540)	(1,302)
Profit before tax attributable to shareholders	3,296	2,275	3,148	2,614	1,635
Operating earnings per share (in pence)	145.2p	131.3p	124.6p	95.7p	90.4p

# Additional unaudited financial information continued

## II Other information continued

### II(j) Selected historical financial information of Prudential continued Supplementary EEV income statement data (post-tax)

	Year ended 31 December £m				
	2017	2016	2015	2014	2013
Operating profit based on longer-term investment returns <sup>note 2</sup>	6,598	5,497	4,840	4,108	4,224
Non-operating items	2,153	(981)	(889)	235	134
Profit attributable to shareholders	8,751	4,516	3,951	4,343	4,358
Operating earnings per share (in pence)	257.0p	214.7p	189.6p	161.2p	165.8p

### New business data

	Year ended 31 December £m				
	2017	2016	2015	2014*	2013
Annual premium equivalent (APE) sales	6,958	6,320	5,466	4,514	4,310
EEV new business profit (NBP) (post-tax)	3,610	3,088	2,609	2,104	2,057
NBP margin (% APE)	52%	49%	48%	47%	48%

\* Excluding the £23 million APE and £11 million NBP for the sold PruHealth and PruProtect businesses.

### Statement of financial position data

As of and for the year ended 31 December	£m				
	2017	2016	2015	2014	2013
Total assets	493,941	470,498	386,985	369,204	325,932
Total policyholder liabilities and unallocated surplus of with-profits funds	428,194	403,313	335,614	321,989	286,014
Core structural borrowings of shareholder-financed operations	6,280	6,798	5,011	4,304	4,636
Total liabilities	477,847	455,831	374,029	357,392	316,281
Total equity	16,094	14,667	12,956	11,812	9,651

### Other data

As of and for the year ended 31 December	£bn				
	2017	2016	2015	2014	2013
Funds under management <sup>note 3</sup>	669	602	509	496	443
EEV shareholders' equity, excluding non-controlling interests	45.0	39.0	32.4	29.2	24.9
Group shareholder Solvency II surplus <sup>note 4</sup>	13.4	12.5	9.7	n/a	n/a
Insurance Groups Directive capital surplus before final dividend	n/a	n/a	5.5	4.7	5.1

### Notes

- This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders.
- Operating profits are determined on the basis of including longer-term investment returns. EEV and IFRS operating profits are stated after excluding the effect of short-term fluctuations in investment returns against long-term assumptions, gain on dilution of the Group's holdings, the costs arising from the domestication of the Hong Kong business, profit (loss) attaching to the sale of Japan life and profit (loss) attaching to the held for sale Korea life business. Separately on the IFRS basis, operating profit also excludes amortisation of acquisition accounting adjustments. In addition, for EEV basis results, operating profit excludes the effect of changes in economic assumptions, the market value movement on core borrowings and in 2012, the gain arising on the acquisition of REALIC.
- Funds under management comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.
- The 2017 surplus is estimated.

## II(k) Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the year:

	31 Dec 2017 £m	31 Dec 2016 £m
<b>EEV shareholders' funds</b>	<b>44,698</b>	<b>38,968</b>
Less: Value of in-force business of long-term business <sup>note (a)</sup>	(29,410)	(24,937)
Deferred acquisition costs assigned zero value for EEV purposes	9,227	9,170
Other <sup>note (b)</sup>	(8,428)	(8,535)
<b>IFRS shareholders' funds</b>	<b>16,087</b>	<b>14,666</b>

### Notes

- (a) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value of in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.
- (b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. For the UK, this would be the difference between IFRS and Solvency II.
- It also includes the mark to market of the Group's core structural borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with a deferred acquisition costs recognised as an asset) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

## II(l) Reconciliation of APE new business sales to earned premiums

The Group reports APE new business sales as a measure of the new policies sold in the year. This differs from the IFRS measure of premiums earned as shown below:

	2017 £m	2016 £m
<b>Annual premium equivalents as published</b>	<b>6,958</b>	<b>6,320</b>
Adjustment to include 100% of single premiums on new business sold in the year <sup>note (a)</sup>	28,769	25,057
Premiums from in-force business and other adjustments <sup>note (b)</sup>	8,278	7,604
<b>Gross premiums earned</b>	<b>44,005</b>	<b>38,981</b>
Outward reinsurance premiums	(2,062)	(2,020)
<b>Earned premiums, net of reinsurance as shown in the IFRS financial statements</b>	<b>41,943</b>	<b>36,961</b>

### Notes

- (a) APE new business sales only include one tenth of single premiums, recorded on policies sold in the year. Gross premiums earned include 100 per cent of such premiums.
- (b) Other adjustments principally include amounts in respect of the following:
- Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
  - APE includes new policies written in the year which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in M&G Prudential for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
  - APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
  - For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures and associates. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

## Additional unaudited financial information continued

### II Other information continued

#### II(m) Calculation of return on embedded value

Return on embedded value is calculated as the EEV post-tax operating profit based on longer-term investment returns, as a percentage of opening EEV basis shareholders' funds.

	Note	2017	2016
Operating profit based on longer-term investment returns (£ million)	2	6,598	5,497
Opening EEV basis shareholders' funds (£ million)	9	38,968	31,886
<b>Return on embedded value</b>		<b>17%</b>	<b>17%</b>

#### II(n) Calculation of EEV shareholders' funds per share

EEV shareholders' funds per share is calculated as closing EEV shareholders' funds divided by the number of issued shares at the balance sheet date. EEV shareholders' funds per share excluding goodwill attributable to shareholders is calculated in the same manner, except goodwill attributable to shareholders is deducted from closing EEV shareholders' funds.

	Note	31 Dec 2017	31 Dec 2016
Closing EEV shareholders' funds (£ million)	9	44,698	38,968
Less: Goodwill attributable to shareholders (£ million)	9	(1,458)	(1,475)
Closing EEV shareholders' funds excluding goodwill attributable to shareholders (£ million)		43,240	37,493
Number of issued shares at year end (millions)		2,587	2,581
<b>Shareholders' funds per share (in pence)</b>		<b>1,728p</b>	<b>1,510p</b>
<b>Shareholders' funds per share excluding goodwill attributable to shareholders (in pence)</b>		<b>1,671p</b>	<b>1,453p</b>



## Risk factors

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-Looking Statements'.

Prudential's approaches to managing risks are explained in the 'Report on the risks facing our business and how these are managed' section of this document.

### Risks relating to Prudential's business

#### Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty, fluctuations or negative trends in international economic and investment climates could have a material adverse effect on Prudential's business and profitability. Prudential operates in a macroeconomic and global financial market environment that presents significant uncertainties and potential challenges. For example, government interest rates remain low in the US, the UK and some Asian countries in which Prudential operates.

Global financial markets are subject to uncertainty and volatility created by a variety of factors. These factors include the reduction in accommodative monetary policies in the US, the UK and other jurisdictions together with its impact on the valuation of all asset classes, effects on interest rates and the risk of disorderly repricing of inflation expectations and global bond yields, concerns over sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty and potentially negative socio-political events.

The adverse effects of such factors could be felt principally through the following items:

- Reduced investment returns arising on the Group's portfolios including impairment of debt securities and loans, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, and/or have a negative impact on its assets under management and profit;

- Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;
- Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;
- Estimates of the value of financial instruments becoming more difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and
- Increased illiquidity, which also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. This could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential. The potential impact of increased illiquidity is more uncertain than for other risks such as interest rate or credit risk.

In general, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New

challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, Jackson writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Jackson uses a derivative hedging programme to reduce its exposure to market risks arising on these guarantees. There could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

Also, in the US, fluctuations in prevailing interest rates can affect results from

## Risk factors continued

Jackson which has a significant spread based business, with the significant proportion of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

On 29 March 2017 the UK submitted the formal notification of its intention to withdraw from the EU pursuant to Article 50 of the Treaty on the European Union, as amended. Following submission of this notification, the UK has a maximum period of two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification of the UK's intention to withdraw from the EU. The UK's decision to leave the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including M&G Prudential, and these may be impacted by a UK withdrawal from the EU. The outcome of the negotiations on the UK's withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. As a result, there is ongoing uncertainty over the terms under which the UK will leave the EU, whether any transitional arrangements will be agreed between the UK and the EU, the possibility of a lengthy period before negotiations are concluded, and the potential for a disorderly exit by the UK without a negotiated agreement. This uncertainty may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

A significant part of the profit from M&G Prudential's insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

### **Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio**

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be adversely affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopted policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

### **Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses**

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility that Prudential has in managing its business.

**Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates**

Changes in government policy and legislation (including in relation to tax), capital control measures on companies and individuals, regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, or decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential. The adverse impact from these changes may affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements.

Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. Furthermore, as a result of interventions by governments following recent financial and global economic conditions, there may continue to be changes in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

Recent shifts in the focus of some national governments toward more protectionist or restrictive economic and trade policies could impact on the degree and nature of regulatory changes and Prudential's competitive position in some geographic markets. This could take effect, for example, through increased friction in cross-border trade or measures favouring local enterprises such as changes to the maximum level of non-domestic ownership by foreign companies.

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission began a review in late 2016 of some aspects of the Solvency II legislation, which is expected to continue until 2021 and covers, among other things, a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US Dollar-denominated business, and UK transitional measures. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position.

The UK's decision to leave the EU could result in significant changes to the legal and regulatory regime under which the Group operates, the nature and extent of which are uncertain while the outcome of negotiations regarding the UK's withdrawal from the EU and the extent and terms of any future access to the single EU market remains unknown.

Currently there are also a number of other global regulatory developments which could impact Prudential's businesses in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs), the Insurance Capital Standard (ICS) being developed by the International Association of Insurance Supervisors (IAIS), the Markets in Financial Instruments Directive

(the 'MiFID II Directive'), which recently came into force in the EU and the EU General Data Protection Regulation that comes into force in May 2018. In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments in Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' reforms in the US including any implications from the recently enacted US tax reform legislation and amendments to certain local statutory regimes in some territories in Asia. There remains a high degree of uncertainty over the potential impact of these changes on the Group.

The Dodd-Frank Act provides for a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rulemaking or other actions by various US regulators over the coming years. There is also potential uncertainty surrounding future changes to the Dodd-Frank Act under the current US administration.

Prudential's designation as a G-SII was reaffirmed on 21 November 2016. As a result of this designation, Prudential is subject to additional regulatory requirements, including a requirement to submit enhanced risk management plans (such as a Group-wide Recovery Plan, a Systemic Risk Management Plan and a Liquidity Risk Management Plan) to a Crisis Management Group (CMG) comprised of an international panel of regulators.

The G-SII regime also introduces capital requirements in the form of a Higher Loss Absorption (HLA) requirement. While this requirement was initially intended to come into force in 2019, this has now been postponed to 2022. The HLA is also now intended to be based on the ICS. The IAIS has announced that the implementation of ICS will be conducted in two phases – a five-year monitoring phase followed by an implementation phase. During the monitoring phase, Internationally Active Insurance Groups, for which Prudential satisfies the criteria, will be required to report on compliance with the ICS to the group-wide supervisor on a confidential basis, although these results will not be used as a basis to trigger supervisory

## Risk factors continued

action. The Common Framework (ComFrame) for the Supervision of Internationally Active Insurance Groups will more generally establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions.

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise in which Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I which, under its standard IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. The European Union will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. The Group is reviewing the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, amongst other things, alter the timing of IFRS profit recognition. The implementation of this standard is also likely to require significant enhancements to IT, actuarial and finance systems of the Group, and so will have an increase on the Group's expenses.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

### **The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers**

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. Such actions may relate to the application of current regulations for example the Financial Conduct Authority's (FCA) principles and conduct of business rules or the failure to implement new regulations. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK business's undertaking to the FCA to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. This will result in the UK business being required to provide redress to certain such customers, the ultimate amount of which remains uncertain.

Regulators may also focus on the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor (DoL). Elements of the DoL fiduciary duty rules, including the impartial conduct standards,

became effective on 9 June 2017 but applicability of the remaining components of the rules has been delayed until 1 July 2019. There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

### **Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition**

Prudential is, and may in the future be, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material respects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be imposed and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could have an adverse effect on Prudential's reputation, results of operations or cash flows.

### **Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends**

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, the ability to respond to developing demographic trends, customer appetite for certain savings products and technological advances. In some of its markets, Prudential faces competitors that are larger, have greater

financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors include global life insurers such as Allianz, AXA, and Manulife together with regional insurers such as AIA and Great Eastern, and multinational asset managers such as Franklin Templeton, HSBC Global Asset Management, J.P. Morgan Asset Management and Schroders. In most markets, there are also local companies that have a material market presence.

M&G Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Janus Henderson, Jupiter, Legal & General, Schroders and Standard Life Aberdeen.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as Aegon, AIG, Allianz, AXA Financial Inc., Brighthouse, Lincoln Financial Group, MetLife and Prudential Financial.

Prudential believes competition will intensify across all regions in response to consumer demand, digital and other technological advances, the need for economies of scale and the consequential impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

**Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties**

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result, its competitiveness. Downgrades in Prudential's ratings as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns could have an adverse effect on its ability to market products, retain current

policyholders, and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's, and A by Fitch. These ratings are all on a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's, and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 by Moody's, AA by Standard & Poor's, and AA by Fitch. These ratings are all on a stable outlook.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's, and A+ by AM Best. These ratings have a stable outlook.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA by Standard & Poor's. This rating is on a stable outlook.

All ratings above are stated as at 13 March 2018.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

**Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations**

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems or human error, the effects of natural or man-made catastrophic events (such as natural disasters, pandemics, cyber-attacks, acts of terrorism, civil unrest and other catastrophes) or from other external events. Exposure to such events could disrupt Prudential's systems and operations significantly, which may result in financial loss and reputational damage.

Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and it employs a large number of models, and user developed applications, some of

which are complex, in its processes. The long-term nature of much of the Group's business also means that accurate records have to be maintained for significant periods. Further, Prudential operates in an extensive and evolving legal and regulated environment which adds to the operational complexity of its business processes and controls.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes.

As part of the implementation of its business strategies, Prudential has commenced a number of change initiatives to be established across the Group, some of which are interconnected and/or of large scale, that may have material financial and reputational implications if such initiatives fail (either wholly or in part) to meet their objectives and could place strain on the operational capacity of the Group. These initiatives include the combination of M&G and Prudential UK & Europe, the proposed demerger of M&G Prudential and the intended sale of part of the UK annuity portfolio. In addition, Prudential outsources several operations, including a significant part of its back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective. Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or security breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems

## Risk factors continued

(such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

### **The proposed demerger of M&G Prudential carries with it execution risk and will require significant management attention**

The proposed demerger of M&G Prudential (Prudential's UK business), is subject to a number of factors (including prevailing market conditions, transfer of the Hong Kong business from The Prudential Assurance Company Limited to Prudential Corporation Asia Limited and approvals from regulators and shareholders). Therefore there can be no certainty as to the timing of the demerger, or that it will be completed as proposed (or at all). Further, if the proposed demerger is completed, there can be no assurance that either Prudential plc or M&G Prudential will realise the anticipated benefits of the transaction, or that the proposed demerger will not adversely affect the trading value or liquidity of the shares of either or both of the two businesses. In addition, preparing for and implementing the proposed demerger is expected to require significant time from management, which may divert management's attention from other aspects of Prudential's business.

### **Attempts by third parties to access or disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss**

Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from Prudential's customers, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing market profile, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII could also increase the likelihood of Prudential

being considered a target by cyber criminals. Further, there have been recent changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased. Developments in data protection worldwide (such as the EU General Data Protection Regulation that comes into force in May 2018) may also increase the financial and reputational implications for Prudential following a significant breach of its (or its third-party suppliers') IT systems. To date, Prudential has not identified a failure or breach which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

### **The failure to understand and respond effectively to the impacts of transitional and physical risks associated with climate change could adversely affect Prudential's results of operations and its long-term strategy**

Climate change poses potentially significant risks to Prudential and its customers, not only from the physical impacts of climate change, driven by specific climate-related events such as natural disasters, but also from the transition risks, associated with the shift to a low-carbon economy.

The climate risk landscape continues to evolve and is moving up the agenda of many regulators, governments, non-governmental organisations and investors. For example, the Financial Stability Board (FSB's) Task Force for Climate-related Disclosures recommendations were published in 2017 to provide a voluntary framework on corporate climate-related financial disclosures following the FSB's concern that there may be systemic risk in the financial system related to climate change.

Global commitments to limit climate change were recently agreed and governmental and corporate efforts to transition to a low-carbon economy in the coming decades could have an adverse impact on global investment assets. In particular, there is a risk that this transition including the related changes to technology, policies and regulations and the speed of their implementation, could result in some sectors (such as but not limited to the fossil fuel industry) facing significantly higher costs and a disorderly adjustment to their asset values. This could lead to an adverse impact on the value and the future performance of the investment assets of the Group if climate considerations are not effectively integrated into investment decisions and fiduciary and stewardship duties. Where Prudential's investment horizons are long term, the relevant assets are potentially more exposed to the long-term impact of climate change.

### **Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations**

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive. Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the

Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

In addition, Prudential's business may be adversely affected by epidemics and other effects that give rise to a large number of deaths or additional sickness claims. Significant influenza epidemics have occurred a number of times historically but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

**As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments**

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this 'Risk Factors' section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

**Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries**

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants. In addition, the level of control exercisable by the Group could also be subject to changes in the maximum level of non-domestic ownership imposed on foreign companies in certain jurisdictions. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

**Prudential's Articles of Association contain an exclusive jurisdiction provision**

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its Directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its Directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

**Changes in tax legislation may result in adverse tax consequences**

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

## AER

Actual Exchange Rates 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.

## Annual premium equivalent or APE

A measure of new business activity that is calculated as the sum of annualised regular premiums from new business plus 10 per cent of single premiums on new business written during the period.

## Asset backed security

A security whose value and income payments are derived from and collateralised (or 'backed') by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually.

## Available for sale (AFS)

Securities that have been acquired neither for short-term sale nor to be held to maturity. AFS securities are measured at fair value on the statement of financial position with unrealised gains and losses being booked in Other Comprehensive Income instead of the income statement.

## Back book of business

The insurance policies sold in past periods that are still in-force and hence are still recorded on the insurer's balance sheet.

## Bonuses

Bonuses refer to the non-guaranteed benefit added to participating life insurance policies and are the way in which policyholders receive their share of the profits of the policies. There are normally two types of bonus;

- Regular bonus – expected to be added every year during the term of the policy. It is not guaranteed that a regular bonus will be added each year, but once it is added, it cannot be reversed, also known as annual or reversionary bonus; and
- Final bonus – an additional bonus expected to be paid when policyholders take money from the policies. If investment return has been low over the lifetime of the policy, a final bonus may not be paid. Final bonuses may vary and are not guaranteed.

## Cash surrender value

The amount of cash available to a policy holder on the surrender of or withdrawal from a life insurance policy or annuity contract.

## CER

Constant Exchange Rate – Prudential plc reports its results at both actual exchange rates (AER) to reflect actual results and also constant exchange rates (CER) so as to eliminate the impact from exchange translation. CER results are calculated by translating prior year results using current period foreign currency exchange rates ie current period average rates for the income statements and current period closing rate for the balance sheet.

## Closed-book life insurance business

A 'closed book' is essentially a group of insurance policies that are no longer sold, but are still featured on the books of a life insurer as a premium-paying policy. The insurance company has 'closed the books' on new sales of these products which will remain in run-off until the policies expire and all claims are settled.

## Core structural borrowings

Borrowings which Prudential considers to form part of its core capital structure and exclude operational borrowings.

## Credit risk

The risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion.

## Currency risk

The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.

## Deferred acquisition costs or DAC

Acquisition costs are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. Typically, under IFRS, an element of acquisition costs are deferred ie not expensed in the year incurred, and instead amortised in the income statement in line with the emergence of surpluses on the related contracts.

## Deferred annuities

Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.

## Discretionary participation features or DPF

A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on asset, fund, company or other entity performance.

## Dividend cover

Dividend cover is calculated as operating profit after tax on an IFRS basis, divided by the current year interim dividend plus the proposed final dividend.

## Endowment product

An ordinary individual life insurance product that provides the insured party with various guaranteed benefits if it survives specific maturity dates or periods stated in the policy. Upon the death of the insured party within the coverage period, a designated beneficiary receives the face value of the policy.

## European Embedded Value or EEV

Financial results that are prepared on a supplementary basis to the Group's consolidated IFRS results and which are prepared in accordance with a set of Principles issued by the Chief Financial Officers Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance of EEV Disclosures published in October 2005. The principles are designed to capture the value of the new business sold in the period and of the business in force.

## Fixed annuities

Fixed annuity contracts written in the US which allow for tax-deferred accumulation of funds, are used for asset accumulation in retirement planning and for providing income in retirement and offer flexible pay-out options. The contract holder pays the insurer a premium, which is credited to the contract holders' account. Periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate.



### Fixed indexed annuities

These are similar to fixed annuities in that the contract holder pays the insurer a premium, which is credited to the contract holders' account and, periodically, interest is credited to the contract holders' account and administrative charges are deducted, as appropriate. An annual minimum interest rate may be guaranteed, although actual interest credited may be higher and is linked to an equity index over its indexed option period.

### Funds under management

These comprise funds of the Group held in the statement of financial position and external funds that are managed by Prudential asset management operations.

### Group free surplus

Group free surplus at the end of the period comprises free surplus for the insurance businesses, representing the excess of the net worth over the required capital included in the EEV results, and IFRS net assets for the asset management businesses excluding goodwill. The free surplus generated during the period comprises the movement in this balance excluding foreign exchange, capital, and other reserve movements. Specifically, it includes amounts maturing from the in-force operations during the period less the investment in new business, the effect of market movements and other one-off items.

### Guaranteed annuities

Policies that pay out a fixed amount of benefit for a defined period.

### Guaranteed investment contract (GIC) (US)

An investment contract between an insurance company and an institutional investor, which provides a stated rate of return on deposits over a specified period of time. They typically provide for partial or total withdrawals at book value if needed for certain liquidity needs of the plan.

### Guaranteed minimum accumulation benefit (GMAB) (US)

A guarantee that ensures that the contract value of a variable annuity contract will be at least equal to a certain minimum amount after a specified number of years.

### Guaranteed minimum death benefit (GMDB) (US)

The basic death benefit offered under variable annuity contracts, which specifies that if the owner dies before annuity income payments begin, the beneficiary will receive a payment equal to the greater of the contract value or purchase payments less withdrawals.

### Guaranteed minimum income benefit (GMIB) (US)

A guarantee that ensures, under certain conditions, that the owner may annuitise the variable annuity contract based on the greater of (a) the actual account value or (b) a pay-out base equal to premiums credited with some interest rate, or the maximum anniversary value of the account prior to annuitisation.

### Guaranteed minimum withdrawal benefit (GMWB) (US)

A guarantee in a variable annuity that promises that the owner may make annual withdrawals of a defined amount for the life of the owner or until the total guaranteed amount is recovered, regardless of market performance or the actual account balance.

### Health and protection

These comprise health and personal accident insurance products, which provide morbidity or sickness benefits and include health, disability, critical illness and accident coverage. Health and protection products are sold both as standalone policies and as riders that can be attached to life insurance products. Health and protection riders are presented together with ordinary individual life insurance products for purposes of disclosure of financial information.

### Immediate annuity

An annuity in which payments to the annuitant or beneficiary start at once upon establishment of the annuity plan or scheme. Such annuities are almost always purchased with a single (lump sum) payment.

### In-force

An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.

### Inherited estate

For life insurance proprietary companies, surplus capital available on top of what is necessary to cover policyholders reasonable expectations. An inherited (orphan) estate is effectively surplus capital on a realistic basis built over time and not allocated to policyholders or shareholders.

### Internal rate of return (IRR)

The IRR is equivalent to the discount rate at which the present EEV value of the post-tax cash flows expected to be earned over the life time of the business written in shareholder-backed life funds is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is equal to the amount required to pay acquisition costs and set up reserves less premiums received, plus encumbered capital. The impact of the time value of options and guarantees is included in the calculation.

### Internal vesting

Internal vestings are proceeds from a Prudential policy which the policyholder has decided to reinvest in a Prudential annuity product.

### International Financial Reporting Standards (IFRS)

Accounting standards that all publicly listed groups in the European Union are required to apply in preparing consolidated financial statements.

### Investment grade

Investments rated BBB- or above for S&P, Baa3 or above for Moodys. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.

### Investment-linked products or contracts

Insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit-linked products or unit-linked contracts.

### Liquidity coverage ratio

Prudential calculates this as assets and resources available to us that are readily convertible to cash to cover corporate obligations in a prescribed stress scenario. We calculate this ratio over a range of time horizons extending to 12 months.

**Liquidity premium**

This comprises the premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps and the mark to market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

**Market value reduction (MVR)**

A reduction applied to the payment on with-profits bonds when policyholders surrender in adverse market conditions.

**Money Market Fund (MMF)**

An MMF is an open-ended mutual fund that invests in short-term debt securities such as US treasury bills and commercial paper. The purpose of an MMF is to provide investors with a safe place to invest easily accessible cash-equivalent assets characterised as a low-risk, low-return investment.

**Mortality rate**

Rate of death, varying by such parameters as age, gender, and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks.

**Net premiums**

Life insurance premiums, net of reinsurance ceded to third-party reinsurers.

**Net worth**

Net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

**New business margin**

The value of new business on an EEV basis expressed as a percentage of the present value of new business premiums expected to be received from the new business.

**New business profit**

The profits, calculated in accordance with European Embedded Value Principles, from business sold in the financial reporting period under consideration.

**Non-participating business**

A life insurance policy where the policyholder is not entitled to a share of the company's profits and surplus, but receives certain guaranteed benefits. Also known as non-profit in the UK. Examples include pure risk policies (eg fixed annuities, term insurance, critical illness) and unit-linked insurance contracts.

**Open ended investment company (OEIC)**

A collective investment fund structured as a limited company in which investors can buy and sell shares.

**Operational borrowings**

Borrowings which arise in the normal course of the business.

**Participating funds**

Distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The insurer may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits. For Prudential the most significant participating funds are with-profits funds for business written in the UK, Hong Kong, Malaysia and Singapore.

**Participating policies or participating business**

Contracts of insurance where the policyholders have a contractual right to receive, at the discretion of the insurer, additional benefits based on factors such as investment performance, as a supplement to any guaranteed benefits. This is also referred to as with-profits business.

**Payback period**

Payback period is the time in which the initial 'cash' outflow of investment is expected to be recovered from the 'cash' inflows generated by the investment. We measure cash outflow by our investment of free surplus in new business sales. The payback period equals the time taken for this business to generate free surplus to cover this investment. Payback periods are measured on an undiscounted basis.

**Present value of new business premiums or PVNBP**

The present value of new business premiums is calculated as equalling single premiums plus the present value of expected premiums of new regular premium business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

**Prudential Regulation Authority or PRA**

The PRA is a UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

**Regular premium product**

A life insurance product with regular periodic premium payments.

**Rider**

A supplemental plan that can be attached to a basic insurance policy, with payment of additional premium.

**Risk margin reserve (RMR) charge**

An RMR is included within operating profit based on longer-term investment returns and represents a charge for long-term expected defaults of debt securities, determined by reference to the credit quality of the portfolio.

**Scottish Amicable Insurance Fund (SAIF)**

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company's long-term fund following the acquisition of the mutually owned Scottish Amicable Life Assurance Society in 1997. The fund is solely for the benefit of policyholders of SAIF. Shareholders of Prudential plc have no interest in the profits of this fund although they are entitled to asset management fees on this business.

**Separate account**

A separate account is a pool of investments held by an insurance company not in or 'separate' from its general account. The returns from the separate account generally accrue to the policyholder. A separate account allows an investor to choose an investment category according to his individual risk tolerance, and desire for performance.

**Single premiums**

Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.

**Stochastic techniques**

Stochastic techniques incorporate results from repeated simulations using key financial parameters which are subject to random variations and are projected into the future.

**Subordinated debt**

A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for the added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency, with limitations.

**Surrender**

The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.

**Surrender charge or surrender fee**

The fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period.

**Takaful**

Insurance that is compliant with Islamic principles.

**Time value of options and guarantees**

The value of financial options and guarantees comprises two parts, the intrinsic value and the time value. The intrinsic value is given by a deterministic valuation on best estimate assumptions. The time value is the additional value arising from the variability of economic outcomes in the future.

**Total shareholder return (TSR)**

TSR represents the growth in the value of a share plus the value of dividends paid, assuming that the dividends are reinvested in the Company's shares on the ex-dividend date.

**Unallocated surplus**

Unallocated surplus is recorded wholly as a liability and represents the excess of assets over policyholder liabilities for Prudential's with-profits funds. 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.

**Unit-linked products or unit-linked contracts**

See 'investment-linked products or contracts' above.

**Universal life**

An insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge.

**Variable annuity (VA) (US)**

An annuity whose value is determined by the performance of underlying investment options that frequently includes securities. A variable annuity's value is not guaranteed and will fluctuate, depending on the value of its underlying investments. The holder of a variable annuity assumes the investment risk and the funds backing a variable annuity are held in the insurance companies separate account. VAs are similar to unit-linked annuities in the UK.

**Whole of life**

A type of life insurance policy that provides lifetime protection; premiums must usually be paid for life. The sum assured is paid out whenever death occurs. Commonly used for estate planning purposes.

**With-profits funds**

See 'participating funds' above.

**Yield**

A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

## Shareholder information

### Communication with shareholders

The Group maintains a corporate website containing a wide range of information relevant for private and institutional investors, including the Group's financial calendar: [www.prudential.co.uk](http://www.prudential.co.uk)

### Annual General Meeting

The 2018 Annual General Meeting (AGM) will be held in the Churchill Auditorium at The QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 17 May 2018 at 11.00am.

Prudential will continue its practice of calling a poll on all resolutions and the voting results, including all proxies lodged prior to the meeting, will be displayed at the meeting and subsequently published on the Company's website.

Details of the 2017 AGM, including the major items discussed at the meeting and the results of the voting, can be found on the Company's website.

In accordance with relevant legislation, shareholders holding 5 per cent or more of the fully paid up issued share capital are able to require the Directors to hold a general meeting. Written shareholder requests should be addressed to the Group Company Secretary at the registered office.

### Documents on display

The terms and conditions of all Directors' appointments are available for inspection at the Company's registered office during normal business hours and at the AGM.

### Company constitution

Prudential is governed by the Companies Act 2006, other applicable legislation and regulations, and provisions in its Articles. Any change to the Articles must be approved by special resolution of the shareholders. There were no changes to the constitutional documents during 2017. The current Memorandum and Articles are available on the Company's website.

### Share capital

#### Issued share capital

The issued share capital as at 31 December 2017 consisted of 2,587,175,445 (2016: 2,581,061,573) ordinary shares of 5 pence each, all fully paid up and listed on the London Stock Exchange and the Hong Kong Stock Exchange. As at 31 December 2017, there were 48,086 (2016: 48,534) accounts on the register. Further information can be found in note C10 on page 277.

Prudential also maintains secondary listings on the New York Stock Exchange (in the form of American Depositary Receipts which are referenced to ordinary shares on the main UK register) and the Singapore Stock Exchange.

Prudential has maintained a sufficiency of public float throughout the reporting period as required by the Hong Kong Listing Rules.

### Analysis of shareholder accounts as at 31 December 2017

Size of shareholding	Number of shareholder accounts	% of total number of shareholder accounts	Number of shares	% of total number of shares
1,000,001 upwards	285	0.59	2,266,393,270	87.60
500,001–1,000,000	149	0.31	105,678,252	4.08
100,001–500,000	544	1.13	125,935,925	4.87
10,001–100,000	1,514	3.15	45,754,585	1.77
5,001–10,000	1,661	3.45	11,504,150	0.44
1,001–5,000	10,561	21.96	23,172,639	0.90
1–1,000	33,372	69.41	8,736,624	0.34
Total	48,086	100	2,587,175,445	100

### Major shareholders

The following notifications have been disclosed under the Financial Conduct Authority's (FCA) Disclosure Guidance and Transparency Rules in respect of notifiable interests exceeding 3 per cent in the voting rights of the issued share capital.

As at 31 December 2017	% of total voting rights
Capital Group Companies, Inc.	9.87
BlackRock, Inc	5.08
Norges Bank	3.99

As at 14 March 2018, no notifications have been received since the year end.

### Rights and obligations

The rights and obligations attaching to the Company's shares are set out in full in the Articles. There are currently no voting restrictions on the ordinary shares, all of which are fully paid, and each share carries one vote on a poll. If votes are cast on a show of hands, each shareholder present in person or by proxy, or in the case of a corporation, each of its duly authorised corporate representatives, has one vote except that if a proxy is appointed by more than one member, the proxy has one vote for and one vote against if instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

Where, under an employee share plan, participants are the beneficial owners of the shares but not the registered owners, the voting rights are normally exercisable by the registered owner in accordance with the relevant plan rules. Trustees may vote at their discretion, but do not vote on any unawarded shares held as surplus assets.

As at 14 March 2018, Trustees held 0.48 per cent of the issued share capital under the various plans in operation.

Rights to dividends under the various schemes are set out on pages 123 to 157.

### Restrictions on transfer

In accordance with English company law, shares may be transferred by an instrument of transfer or through an electronic system (currently CREST) and any transfer is not restricted except that the Directors may, in certain circumstances, refuse to register transfers of shares but only if such refusal does not prevent dealings in the shares from taking place on an open and proper basis. If the Directors make use of that power, they must send the transferee notice of the refusal within two months.

Certain restrictions may be imposed from time to time by applicable laws and regulations (for example, insider trading laws) and pursuant to the Listing Rules of both the FCA and the Hong Kong Stock Exchange, as well as under the rules of some of the Group's employee share plans.

All Directors are required to hold a minimum number of shares under guidelines approved by the Board, which they would also be expected to retain as described on page 148 of the Directors' remuneration report.

### Dividend information

	Shareholders registered on the UK register and Hong Kong and Irish branch registers	Holders of US American Depository Receipts	Shareholders with ordinary shares standing to the credit of their CDP securities accounts
<b>2017 second interim dividend</b>			
Ex-dividend date	29 March 2018	–	29 March 2018
Record date	3 April 2018	3 April 2018	3 April 2018
Payment date	18 May 2018	On or about 25 May 2018	On or about 25 May 2018

A number of dividend waivers are in place and these relate to shares issued but not allocated under the Group's employee share plans. These shares are held by the Trustees and will, in due course, be used to satisfy requirements under the Group's employee share plans.

### Authority to issue shares

The Directors require authority from shareholders in relation to the issue of shares. Whenever shares are issued, these must be offered to existing shareholders pro rata to their holdings unless the Directors have been given authority by shareholders to issue shares without offering them first to existing shareholders. Prudential seeks authority from its shareholders on an annual basis to issue shares up to a maximum amount, of which a defined number may be issued without pre-emption. Disapplication of statutory pre-emption procedures is also sought for rights issues. The existing authorities to issue shares and to do so without observing pre-emption rights are due to expire at the end of this year's AGM. Relevant resolutions to authorise share capital issuances will be put to shareholders at the AGM on 17 May 2018.

Details of shares issued during 2017 and 2016 are given in note C10 on page 277.

In accordance with the terms of a waiver granted by the Hong Kong Stock Exchange, Prudential confirms that it complies with the applicable law and regulation in the UK in relation to the holding of shares in treasury and with the conditions of the waiver in connection with the purchase of own shares and any treasury shares it may hold.

### Authority to purchase own shares

The Directors also require authority from shareholders in relation to the purchase of the Company's own shares. Prudential seeks authority by special resolution on an annual basis for the buyback of its own shares in accordance with the relevant provisions of the Companies Act 2006 and other related guidance. This authority has not been used since it was last granted at the AGM in 2017. This existing authority is due to expire at the end of this year's AGM and a special resolution to renew the authority will be put to shareholders at the AGM on 17 May 2018.

## Shareholder information continued

### Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

<b>Register</b>	<b>By post</b>	<b>By telephone</b>
<b>Principal UK register</b>	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, UK.	Tel 0371 384 2035 Textel 0371 384 2255 (for hard of hearing). Lines are open from 8.30am to 5.30pm (UK), Monday to Friday. International shareholders Tel +44 121 415 7026
<b>Irish branch register</b>	Link Asset Services, Link Registrars Limited, PO Box 7117, Dublin 2, Ireland.	Tel +353 1 553 0050
<b>Hong Kong branch register</b>	Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.	Tel +852 2862 8555
<b>Singapore register</b>	Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (PTE) Limited (CDP) in Singapore may refer queries to the CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588. Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.	Tel +65 6535 7511
<b>ADRs</b>	JPMorgan Chase Bank N.A, PO Box 64504, St. Paul, MN 55164-0854, USA.	Tel +1 800 990 1135, or from outside the US +1 651 453 2128 or log on to <a href="http://www.adr.com">www.adr.com</a>

### **Dividend mandates**

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti and request a Cash Dividend Mandate form. Alternatively, shareholders may download the form from [www.prudential.co.uk/investors/shareholder-information/forms](http://www.prudential.co.uk/investors/shareholder-information/forms)

### **Cash dividend alternative**

The Company operates a Dividend Re-investment Plan (DRIP). Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available at [www.shareview.co.uk/4/Info/Portfolio/default/en/home/shareholders/Pages/ReinvestDividends.aspx](http://www.shareview.co.uk/4/Info/Portfolio/default/en/home/shareholders/Pages/ReinvestDividends.aspx)

### **Electronic communications**

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at [www.shareview.co.uk](http://www.shareview.co.uk). This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, shareholders will need their shareholder reference number which can be found on their share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through CDP. Please contact Equiniti if you require any assistance or further information.

### **Share dealing services**

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential shares. For telephone sales call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday, and for internet sales log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing)

### **ShareGift**

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be downloaded from our website [www.prudential.co.uk/investors/shareholder-information/forms](http://www.prudential.co.uk/investors/shareholder-information/forms) or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from [www.ShareGift.org](http://www.ShareGift.org)

# How to contact us

## Prudential plc

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www.prudential.co.uk

## Board

**Paul Manduca**  
Chairman

**Executive Directors**  
**Mike Wells**  
Group Chief Executive

**Mark FitzPatrick**  
Chief Financial Officer

**John Foley**  
Chief Executive of M&G Prudential

**Nic Nicandrou**  
Chief Executive of  
Prudential Corporation Asia

**Anne Richards**  
Deputy Chief Executive of  
M&G Prudential and  
Chief Executive of M&G

**Barry Stowe**  
Chairman and Chief Executive Officer  
of North American Business Unit

**James Turner**  
Group Chief Risk Officer

**Non-executive Directors**  
**Philip Remnant**  
Senior Independent Director

**Sir Howard Davies**

**David Law**

**Kai Nargolwala**

**Anthony Nightingale**

**Alice Schroeder**

**Lord Turner**

**Tom Watjen**

## Group Executive Committee

**Julian Adams**  
Group Regulatory and  
Government Relations Director

**Jonathan Oliver**  
Group Communications Director

**Alan Porter**  
Group General Counsel and  
Company Secretary

**Al-Noor Ramji**  
Group Chief Digital Officer

**Tim Rolfe**  
Group Human Resources Director

## Business units

**M&G Prudential**  
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www.pru.co.uk  
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**John Foley**  
Chief Executive of M&G Prudential

**Anne Richards**  
Deputy Chief Executive of  
M&G Prudential and  
Chief Executive of M&G

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One International Finance Centre  
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www.prudentialcorporation-asia.com

**Nic Nicandrou**  
Chief Executive of  
Prudential Corporation Asia

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www.jackson.com

**Barry Stowe**  
Chairman and Chief Executive Officer  
of North American Business Unit

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**Prudential public  
limited company**

Incorporated and registered in  
England and Wales

**Registered office**

Laurence Pountney Hill  
London EC4R 0HH  
Registered number 1397169

[www.prudential.co.uk](http://www.prudential.co.uk)

**Principal place of business  
in Hong Kong**

13th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

Prudential plc is a holding company,  
subsidiaries of which are authorised and  
regulated, as applicable, by the Prudential  
Regulation Authority and the Financial  
Conduct Authority.

### **Forward-looking statements**

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, the timing, costs and successful implementation of the demerger described herein; the future trading value of the shares of Prudential plc and the trading value and liquidity of the to-be-listed M&G Prudential business following such demerger; future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's decision to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing,

impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; disruption to the availability, confidentiality or integrity of Prudential's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk factors' heading in this document and the annual report and the 'Risk factors' heading of Prudential's most recent annual report on Form 20-F filed with the US Securities and Exchange Commission. Prudential's most recent annual report and Form 20-F are available on its website at [www.prudential.co.uk](http://www.prudential.co.uk)

Any forward-looking statements contained in this document speak only as of the date on which they are made. Prudential expressly disclaims any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, the Hong Kong Listing Rules, the SGX-ST listing rules or other applicable laws and regulations.

## History

# Providing financial security since 1848

Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain to over 26 million customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

### 1848

Prudential is established as Prudential Mutual Assurance, Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.

### 1854

Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

### 1871

The Company becomes one of the first in the City to employ women. Calculating machines are also introduced, bringing efficiencies to the processing of an increasing volume of business.

### 1879

Prudential moves into Holborn Bars, a purpose-built office complex designed by Alfred Waterhouse. The building becomes a London landmark, and remains part of Prudential's property portfolio to this day.

### 1912

Following the National Insurance Act, Prudential works with the government to run Approved Societies, providing sickness and unemployment benefits to five million people.

### 1923

Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.

### 1924

Prudential shares are floated on the London Stock Exchange.

### 1949

The 'Man from the Pru' advertising campaign is launched.

### 1986

Prudential acquires Jackson National Life Insurance in the United States.

### 1994

Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

### 1999

Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

### 2000

Prudential plc is listed on the New York Stock Exchange. Prudential becomes the first UK life insurer to enter the Mainland China market through its joint venture with CITIC Group.

### 2010

Prudential plc is listed on stock exchanges in Hong Kong and Singapore.

### 2014

Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

### 2017

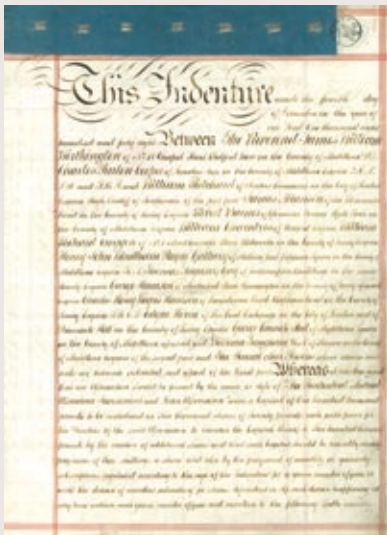
M&G and Prudential UK & Europe combine to form M&G Prudential, a leading savings and investments business ideally positioned to target growing customer demand for comprehensive financial solutions.

### 2018

Prudential plc announces its intention to demerge its UK and Europe business, M&G Prudential, resulting in two separately listed companies, with different investment characteristics and opportunities.



[www.prudentialhistory.co.uk](http://www.prudentialhistory.co.uk)



## Adding more to life: The founding of Prudential

The Prudential Mutual Assurance, Investment and Loan Association was formed on 30 May 1848, in a room at 12 Hatton Garden, London (the premises of Hanslip and Manning solicitors).

The Company's leather-bound Deed of Settlement lists the first shareholders and directors, and outlines the Company's purpose – to offer life assurance and loans to the middle classes. Shareholders including lawyers, doctors, a wine merchant and a number of 'gentlemen' accounted for the first 1,530 shares in the Company.

Prudential's first policies were issued in 1849. The Company's first annual report, published in 1850, stated that: 'the Directors are pleased to think that they might infix habits of Prudence among many individuals', focusing on customers such as 'the clergyman who requires advances for the erection of his parsonage and the officer who seeks the price of his commission'.

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Prudential plc is a holding company,  
subsidiaries of which are authorised  
and regulated, as applicable, by the  
Prudential Regulation Authority and  
the Financial Conduct Authority.

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