PRUDENTIAL PLC
Form 20-F
March 22, 2018

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As filed with the Securities and Exchange Commission on 22 March 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 December 2017

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-15040

PRUDENTIAL PUBLIC LIMITED COMPANY

(Exact Name of Registrant as Specified in its Charter)

England and Wales
(Jurisdiction of Incorporation)

12 Arthur Street,
London EC4R 9AQ, England
(Address of Principal Executive Offices)

Rebecca Wyatt
Head of Financial Accounting
Prudential plc
12 Arthur Street,
London EC4R 9AQ, England
+44 20 7220 7588
rebecca.wyatt@prudential.co.uk
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 2 Ordinary Shares, 5 pence par value each	New York Stock Exchange
Ordinary Shares, 5 pence par value each	New York Stock Exchange*
6.75% Perpetual Subordinated Capital Securities Exchangeable at the Issuer's Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange
6.50% Perpetual Subordinated Capital Securities Exchangeable at the Issuer's Option into Non-Cumulative Dollar Denominated Preference Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 December 2017 was:

2,587,175,445 Ordinary Shares, 5 pence par value each

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes __X__ No ____

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ____ No __X__

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes _____ No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer __X__ Accelerated filer ____ Non-accelerated filer ____ Emerging growth company ____

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected to not use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes ____ No ____

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP __ International Financial Reporting Standards as issued by the International Accounting Standards Board _X_ Other ___

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ____ Item 18 ____

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No __X__

* Not for trading, but only in connection with the registration of American Depositary Shares.

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As used in this document, unless the context otherwise requires, the terms 'Prudential', the 'Group', 'we', 'us' and 'our' each refer to Prudential plc, together with its subsidiaries, while the terms 'Prudential plc', the 'Company' or the 'parent company' each refer to 'Prudential plc'.

Portions of the Prudential's Annual Report 2017 incorporated by reference herein contain references to our website. Information on our website or any other website referenced in the Prudential Annual Report 2017 is not incorporated into this Form 20-F and should not be considered to be part of the Form 20-F. We have included any website as an inactive textual reference only.

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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 shares 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 of this annual report, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K.

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. Prudential may also make or disclose written and/or oral forward-looking statements in reports filed with or furnished to the US Securities and Exchange Commission, the UK Prudential Regulation Authority and Financial Conduct Authority or other regulatory authorities, as well as in its annual report and accounts to shareholders, proxy statements, offering circulars, registration statements, prospectuses and, prospectus supplements, press releases and other written materials and in oral statements made by directors, officers or employees of Prudential to third parties, including financial analysts. All such forward-looking statements are qualified in their entirety by reference to the factors discussed under the 'Risk Factors' heading of this document, as well as under the 'Risk Factors' heading of any subsequent Prudential Half Year Financial Report furnished to the US Securities and Exchange Commission on Form 6-K.These factors are not exhaustive as Prudential operates in a continually changing business environment with new risks emerging from time to time that it may be unable to predict or that it currently does not expect to have a material adverse effect on its business.

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SUMMARY OF OUR BUSINESS

About Prudential

Prudential is an international financial services group serving over 26 million customers and with £669 billion of assets under management (as at 31 December 2017). Prudential plc is incorporated in England and Wales and is listed on stock exchanges in London, Hong Kong, Singapore and New York. It has been in existence for more than 169 years.

Prudential plc is the parent company of the Prudential group (the 'Prudential Group', 'Prudential' or the 'Group'). Prudential is not affiliated in any manner with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America, whose principal place of business is in the US.

Selected Historical Financial Information

The following table sets forth selected consolidated financial data for Prudential 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 endorsed by the European Union ('EU'). EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2017, there were no unendorsed standards effective for the years presented below which impacts the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, the selected consolidated financial data presented below that is derived from Prudential's audited consolidated financial statements is derived from audited consolidated financial statements prepared in accordance with IFRS as issued by the IASB. 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, together with the disclosures in the 'Financial Review' section.

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Income statement data

	Year ended 31 December					
	2017	**2017**	**2016**	**2015**	**2014**	**2013**
	$m(1)	**£m**	**£m**	**£m**	**£m**	**£m**
Gross premium earned	**59,534**	**44,005**	38,981	36,663	32,832	30,502
Outward reinsurance premiums	**(2,790)**	**(2,062)**	(2,020)	(1,157)	(799)	(658)
Earned premiums, net of reinsurance	**56,744**	**41,943**	36,961	35,506	32,033	29,844
Investment return	**57,077**	**42,189**	32,511	3,304	25,787	20,347
Other income	**3,288**	**2,430**	2,370	2,495	2,306	2,184
Total revenue, net of reinsurance	**117,109**	**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	**(98,129)**	**(72,532)**	(59,366)	(29,656)	(50,169)	(43,154)
Acquisition costs and other expenditure	**(13,752)**	**(10,165)**	(8,848)	(8,208)	(6,752)	(6,861)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(575)**	**(425)**	(360)	(312)	(341)	(305)
Profit (loss) attaching to disposal of businesses	**309**	**228**	(238)	(46)	(13)	(120)
Total charges, net of reinsurance and profit (loss) attaching to disposal of businesses	**(112,147)**	**(82,894)**	(68,812)	(38,222)	(57,275)	(50,440)
Share of profits from joint ventures and associates, net of related tax	**409**	**302**	182	238	303	147
Profit before tax (*being tax attributable to shareholders' and policyholders' returns*)(2)	**5,371**	**3,970**	3,212	3,321	3,154	2,082
Tax charges attributable to policyholders' returns	**(912)**	**(674)**	(937)	(173)	(540)	(447)
Profit before tax attributable to shareholders	**4,459**	**3,296**	2,275	3,148	2,614	1,635
Tax credit (charge) attributable to shareholders' returns	**(1,226)**	**(906)**	(354)	(569)	(398)	(289)
Profit for the year	**3,233**	**2,390**	1,921	2,579	2,216	1,346

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	2017(1)	2017	2016	2015	2014	2013
	(In $m, except for Share Information)	£m, except for Share Information				
Statement of financial position data						
Total assets	**668,253**	**493,941**	470,498	386,985	369,204	325,932
Total policyholder liabilities and unallocated surplus of with-profits funds	**579,304**	**428,194**	403,313	335,614	321,989	286,014
Core structural borrowings of shareholder financed operations	**8,496**	**6,280**	6,798	5,011	4,304	4,636
Total liabilities	**646,479**	**477,847**	455,831	374,029	357,392	316,281
Total equity	**21,774**	**16,094**	14,667	12,956	11,812	9,651
Other data						
Based on profit for the year attributable to the equity holders of the Company:						
Basic earnings per share (in pence)	**126.0¢**	**93.1p**	75.0p	101.0p	86.9p	52.8p
Diluted earnings per share (in pence)	**125.8¢**	**93.0p**	75.0p	100.9p	86.8p	52.7p
Dividend per share declared and paid in reporting period (in pence)(5)						
Interim ordinary dividend/final ordinary dividend	**61.0¢**	**45.07p**	39.40p	38.05p	35.03p	30.52p
Equivalent cents per share(6)		**59.28¢**	55.21¢	59.11¢	58.44¢	50.58¢
Special dividend			10.00p			
Equivalent cents per share(6)			14.51¢			
Market price per share at end of period(7)	**2,578.0¢**	**1,905.5p**	1,627.5p	1,531.0p	1,492.0p	1,340.0p
Weighted average number of shares (in millions)		**2,567**	2,560	2,553	2,549	2,548
New business:						
Single premium sales(3)	**43,245**	**31,965**	27,841	27,687	24,296	22,665
New regular premium sales(3)(4)	**5,090**	**3,762**	3,536	2,697	2,107	2,043
Funds under management	**905,496**	**669,300**	602,300	508,600	496,000	443,000

(1)
Amounts stated in US dollars in the 2017 US dollar column have been translated from pounds sterling at the rate of $1.3529 per £1.00 (the noon buying rate in New York City on 29 December 2017).

(2)
This measure is the formal profit (loss) before tax measure under IFRS but is not the result attributable to shareholders. See 'Presentation of results before tax' in note A3.1(b) to Prudential's consolidated financial statements for further explanation.

(3)

The new business premiums in the table 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 (see 'EEV basis, new business results and free surplus generated' below). The amounts shown are not, and are not intended to be, reflective of premium income recorded in the IFRS income statement. Internal vesting business is classified as new business where the contracts include an open market option.

The details shown above for new business include contributions for contracts that are classified under IFRS 4 'Insurance Contracts' as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK and Europe insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

(4)

New regular premium sales are reported on an annualised basis, which represent a full year of instalments in respect of regular premiums irrespective of the actual payments made during the year.

(5)

Under IFRS, dividends declared or approved after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event. The appropriation reflected in the statement of changes in equity, therefore, includes dividend in respect of the prior year that was declared or approved after the balance sheet date of the prior reporting period. Parent company dividends relating to the reporting period were a first interim ordinary dividend of 14.50p per share in 2017 (2016: 12.93p, 2015: 12.31p), a second interim ordinary dividend of 32.50p per share in 2017 (2016: 30.57p, 2015: 26.47p) and a special dividend of 10.00p per share in 2015 only.

(6)

The dividends have been translated into US dollars at the noon buying rate in New York City on the date each payment was made.

(7)

Market prices presented are the closing prices of the shares on the London Stock Exchange on the last day of trading for each indicated period.

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Summary Overview of Operating and Financial Review and Prospects

The following summary discussion and analysis should be read in conjunction with Prudential's consolidated financial statements and the related notes to Prudential's consolidated financial statements included in this document.

A summary of the critical accounting policies which have been applied to these statements is set forth in the section below titled 'IFRS Critical Accounting Policies'.

The results discussed below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in these forward-looking statements due to a number of factors, including those set forth in the 'Risk Factors' and elsewhere in this document.

During 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[1] 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[17] of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion[17] 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.

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Currency volatility

As in previous years, we comment on our performance in local currency terms (expressed on a constant exchange rate, or CER basis) to show the underlying business trends in a period of currency movement. We have used this basis in discussions below for our Asian and US businesses to maintain comparability. Currency values in the countries in which we operate have fluctuated in the course of 2017.

Since 2014 we have adopted the approach of evaluating the financial performance of the Group by presenting percentage growth rates before the impact of the fluctuations in the value of sterling against local currencies in the US and Asia. In a period of currency volatility this approach allows a more meaningful assessment of underlying performance trends. This is because our businesses in the US and Asia receive premiums and pay claims in local currencies and are, therefore, not exposed to any cross-currency trading effects. To maintain comparability in the discussion below the same basis has been applied. Growth rates based on actual exchange rates are also shown in the financial tables presented in this report. Consistent with previous reporting periods, the assets and liabilities of our overseas businesses are translated at period-end exchange rates so the effect of currency movements has been fully incorporated within reported shareholders' equity.

The table below explains how the Group's profit after tax on an IFRS basis reconciles to profit before tax and the supplementary analysis of operating profit based on longer-term investment returns. Further explanation on the determination of operating profit based on longer-term investment returns is provided in the "Basis of Performance Measures" section. Further explanation on non-operating items is provided in the sub-section "non-operating items". The table presents the 2016 results on both an actual exchange rate and constant exchange rate basis so as to eliminate the impact of exchange translation. Actual Exchange Rates (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. Constant Exchange Rates (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.

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IFRS Profit

	Actual Exchange Rate			Constant Exchange Rate		Actual Exchange Rate
	2017	**2016***	**Change**	**2016***	**Change**	**2015***
	£m	**£m**	**%**	**£m**	**%**	**£m**
Profit after tax for the year attributable to shareholders	**2,390**	1,921	24%	1,982	21%	2,579
Tax charge attributable to shareholders' returns	**906**	354	156%	360	152%	569
Profit before tax attributable to shareholders	**3,296**	2,275	45%	2,342	41%	3,148
Non-operating items:						
Losses/(gains) from short-term fluctuations in investment returns	**1,563**	1,678	(7)%	1,764	(11)%	755
Amortisation of acquisition accounting adjustments	**63**	76	(17)%	79	(20)%	122
Profit (loss) attaching to disposal of businesses	**(223)**	227	(198)%	244	(191)%	(56)
	1,403	1,981	(29)%	2,087	(33)%	821
Operating profit before tax based on longer-term investment returns	**4,699**	4,256	10%	4,429	6%	3,969
Analysed into:						
Asia	**1,975**	1,644	20%	1,720	15%	1,286
US	**2,224**	2,048	9%	2,152	3%	1,702
UK and Europe	**1,378**	1,253	10%	1,253	10%	1,637
Other income and expenditure	**(878)**	(689)	27%	(696)	26%	(656)
Operating profit before tax based on longer-term investment returns	**4,699**	4,256	10%	4,429	6%	3,969

* The 2016 and 2015 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 consolidated financial statements.

In the remainder of this section every time we comment on the performance of our businesses, (except with respect to cash remittances), we focus on their performance measured in local currency (presented here by reference to percentage growth expressed at constant exchange rates) unless otherwise stated. In each such case, the performance of our businesses in actual exchange rate terms is explained by the same factors discussed in the comments below and the impact of currency movements implicit in the CER data.

Group performance

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

On 14 March 2018, we announced the achievement of our remaining 2017 objectives, which were set in December 2013. Our Asia businesses delivered growth in operating profit based on longer-term investment returns[2] at a compound average rate of 16 per cent[3] over the period 2012 to 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[4] of £351 billion at 31 December 2017.

Profit for the year after tax for 2017 was £2,390 million compared with £1,921 million for 2016 on an AER basis. The increase primarily reflects the movement in profit before tax attributable to shareholders,

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which increased from a profit of £2,275 million in 2016 (on an AER basis) to a profit of £3,296 million in 2017, which was partially offset by an increase in the tax charge attributable to shareholders from £354 million in 2016 to £906 million in 2017. The increase in tax charge is primarily attributable to the impact of the US tax reform, which generated a one-off charge of £445 million.

On an actual exchange rate basis, the increase in the total profit before tax attributable to shareholders from £2,275 million in 2016 to £3,296 million in 2017 reflects an improvement in operating profit based on longer-term investment returns of £443 million or 10 per cent, which was further improved by a positive change in non-operating items of £578 million, from a loss of £1,981 million to a loss of £1,403 million. The positive change in non-operating items of £578 million is primarily attributable to the profit attaching to disposal of businesses of £162 million in 2017 compared with the loss of £227 million in 2016 and the favourable change in short-term fluctuations in investment returns of £115 million from negative £1,678 million in 2016 to negative £1,563 million in 2017. The improvement of £443 million in total operating profit based on longer term investment returns on an actual exchange rate basis reflects an increase in Asia (from £1,644 million to £1,975 million), the US (from £2,048 million to £2,224 million), the UK and Europe (from £1,253 million to £1,378 million), partially offset by an increase in loss from other income and expenditure (from a loss of £689 million to £878 million). The increase of £443 million or 10 per cent in the Group operating profit based on longer-term investments includes a positive exchange translation impact of £173 million. Excluding the effect of currency volatility, on a constant exchange rate basis, Group operating profit based on longer-term investment returns increased from £4,429 million to £4,699 million, 6 per cent higher than the equivalent amount in 2016.

Operating profit based on longer-term investment returns from our Asia life insurance and asset management businesses grew by 15 per cent[5], reflecting continued broad-based business momentum across the region, with double-digit[5] growth in eight out of 12 life insurance markets. In the US, Jackson's total operating profit based on longer-term investment returns increased by 3 per cent[5], 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 operating profit based on longer-term investment returns was 10 per cent higher than the prior year, reflecting 6 per cent growth in 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. Cash remittances to the Group increased to £1,788 million, with Asia the largest contributor[6] 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[7,8] of 202 per cent. Over the period, 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.

In Asia, we continue to develop our capabilities and reach, which build scale and enhance quality. Our asset management business, Eastspring Investments, has again seen growth, with its total assets under management up 18 per cent[9] to £138.9 billion and operating profit also up 18 per cent[5] £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[5]. 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

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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.

In the UK, both our UK life and asset management businesses performed well in 2017. PruFund new business sales increased significantly, while M&G saw record net inflows of £17.3 billion from external clients. Overall M&G Prudential assets under management[4] 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[10], while 65 per cent of Asian private financial wealth is held in cash[11] and at the same time, that wealth is growing by US$4 trillion a year[11].

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[12], 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[13] of GDP, in Asia that figure is just 2.4 per cent[13], 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[14]. 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[15], 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.

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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. 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[4] 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[16], 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 we are 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.

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. We 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.

1. Source: US Census Bureau, Population Division, 2017 estimate of population.
2. 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 consolidated 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 operating profit objective was adjusted accordingly. 2012 comparative amounts include the one-off gain on sale of 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 increased are stated on a constant exchange rate basis unless otherwise stated.
6. Based on the 2017 operating segments.
7. 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.

8. Estimated before allowing for second interim dividend.
9. Growth rate on actual exchange rate basis.
10. 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.

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11. Source: BCG Global Wealth 2016. Navigating the New Client Landscape
12. Source: World health Organisation Global Health Observatory data repository (2013). Out of pocket as percentage of total health expenditure.
13. Source: Swiss Re Sigma 2015. Insurance penetration calculated as premiums as percentage of GDP. Asia penetration calculated on a weighted population basis.
14. Source: Swiss Re, Mortality Protection Gap: Asia-Pacific, 2015.
15. 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).
16. Source: The Investment Association, September 2017.
17. Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

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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.

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.

Total funds under management

Customers worldwide

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.

US
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.

UK and Europe
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.

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.

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OUR BUSINESS SEGMENTS

Following the combination during the year of the Group's UK insurance business and M&G to form M&G Prudential the Prudential Group is restructured around three main business units: Prudential Corporation Asia (incorporating the asset management business, Eastspring Investments), North America Business Unit and M&G Prudential in UK and Europe. In addition, in recent years, the Group has expanded into Africa. These are supported by central functions which are responsible for Prudential strategy, cash and capital management, leadership development and succession, reputation management and other core group functions.

Asia

Introduction

Prudential Corporation Asia (PCA) has operations in Hong Kong, Singapore, Indonesia, Malaysia and other Asian countries. Its core business is health, protection, either attached to a life policy or on a standalone basis, other life insurance (including participating business) and mutual funds. It also provides selected personal lines property and casualty insurance, group insurance and institutional fund management. The product range offered is tailored to suit the individual country markets. Insurance products are distributed mainly through an agency sales force together with selected banks, while the majority of mutual funds are sold through banks and brokers. Local partners are mandatory in some markets, as reflected in Prudential's life insurance operations in China (through its joint venture with CITIC) and in India (an associate with the majority shareholder being ICICI Bank) and Prudential's Takaful business in Malaysia (through its joint venture with Bank Simpanan Nasional). In the fund management business, Prudential has joint venture operations in India (through its joint venture with ICICI Bank), China (through its joint venture with CITIC) and Hong Kong (through its joint venture with Bank of China International).

As at 31 December 2017, Prudential Corporation Asia had:

- over 15 million life insurance customers with life and fund management operations in 14 markets;
- distribution through more than 12,000 active bank branches across Asia with relationships including Standard Chartered Bank (SCB), United Overseas Bank Limited (UOB), ICICI Bank in India, CITIC in China and Thanachart in Thailand;
- over 600,000 agents across the region;
- consistently high brand recognition and received multiple awards for its customer service; and
- a top 3 position in 9 out of the 12 life markets[1]

Life Insurance

Market overview

In Asia the insurance and savings industries are still in their infancy with average insurance penetration rates at just 2.4 per cent[2], 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.

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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[3] 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 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 with increased average case sizes.

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

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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[4]. We are also adapting technology to improve the service we provide to our agents, such as askPRU in Singapore, the industry's first chat bot 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 increased sales last year. We have also had great success in securing and then activating newer relationships, for example Thanachart Bank in Thailand grew sales 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, and regular premiums comprised the majority of the total sales. 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.

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.

New Business Premiums

In 2017, the total sales of insurance products were £6,006 million, up 1 per cent from 2016 (£5,948 million). Of this amount, regular premium insurance sales increased 6 per cent to £3,650 million and single premium insurance sales fell 6 per cent to £2,356 million.

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The following table shows Prudential's Asian life insurance new business premiums by territory for the periods indicated.

Single premiums	Actual Exchange Rate* 2017	2016	2015
	£m	**£m**	**£m**
Hong Kong	**582**	1,140	546
Indonesia	**288**	236	230
Malaysia	**73**	110	100
Philippines	**62**	91	146
Singapore	**859**	523	454
Thailand	**139**	80	69
Vietnam	**8**	6	6
South East Asia operations including Hong Kong	**2,011**	2,186	1,551
China (Prudential's 50% interest in joint venture)	**179**	124	308
Taiwan	**46**	36	45
India (Prudential's 26% interest in associate)	**63**	51	34
Total Asia insurance operations excluding Korea	**2,299**	2,397	1,938
Korea**	**57**	98	182
Total Asia insurance operations including Korea	**2,356**	2,495	2,120

Regular premiums	2017	2016	2015
	£m	**£m**	**£m**
Cambodia	**16**	14	8
Hong Kong	**1,667**	1,798	1,158
Indonesia	**268**	255	303
Malaysia	**271**	233	201
Philippines	**71**	61	44
Singapore	**361**	299	264
Thailand	**70**	81	88
Vietnam	**133**	115	82
South East Asia operations including Hong Kong	**2,857**	2,856	2,148
China (Prudential's 50% interest in joint venture)	**276**	187	111
Taiwan	**208**	146	127
India (Prudential's 26% interest in associates)	**234**	170	132
Total Asia insurance operations excluding Korea	**3,575**	3,359	2,518
Korea**	**75**	94	123
Total Asia insurance operations including Korea	**3,650**	3,453	2,641

	2017	2016	2015
	£m	**£m**	**£m**
Total excluding Korea	**5,874**	5,756	4,456
Korea**	**132**	192	305

Total including Korea	**6,006**	5,948	4,761

*
Actual Exchange Rate (AER) for translating new business premiums are actual historical exchange rates for the specific accounting period, being the average rates over the accounting period shown.

**
The new business premiums from the Group's Korea life subsidiary are shown separately in the table above as it was sold in May 2017.

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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.

Asset management

Eastspring Investments, Prudential's asset management business in Asia, manages investments for Prudential's Asia and UK life companies and also has a broad base of third-party retail and institutional clients.

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 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[5], 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.

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The following table shows funds managed by Eastspring Investments at the dates indicated.

	At 31 December		
	2017	**2016**	**2015**
	£bn	**£bn**	**£bn**
Internal fund management	**83.0**	72.2	52.8
External fund management	**55.9**	45.7	36.3
Total	**138.9**	117.9	89.1

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.

1. Prudential's rank in insurance market by new business. Based on formal (competitors results releases, local regulators, insurance associations) and informal (industry exchange) market share data.
2. Source: Swiss Re Sigma 2015. Insurance penetration calculated as premiums as percentage of GDP. Asia penetration calculated on a weighted population basis.
3. Swiss Re Mortality Protection Gap Report Asia Pacific 2015.
4. Annual growth to 1 July 2017. Source: The Premier Association of Financial Professionals.
5. 2018 Asia Asset Management 'Best of the Best Regional Awards' Best Asset Management House.

United States

Introduction

In the United States, Prudential offers a range of products through Jackson National Life Insurance Company ('Jackson') and its subsidiaries, including fixed annuities (fixed interest rate annuities, fixed index annuities and immediate annuities), variable annuities and institutional products (including guaranteed investment contracts and funding agreements). Jackson distributes these products through independent insurance agents, independent broker-dealers, regional broker-dealers, wirehouses, banks, credit unions and other financial institutions. Although Jackson historically offered traditional life insurance products, it discontinued new sales of life insurance products in 2012.

As at 31 December 2017, in the United States, Jackson:

was the 16th largest life insurance company in terms of general account assets[1];

had 19 per cent market share of US variable annuities[2] and had £130.5 billion of separate account assets; and

has been recognised for customer service performance with the "Contact Center World Class FCR Certification' and 'Highest Customer Service for the Financial Industry' awards by The Service Quality Measurement Group, Inc. for the 11th consecutive year.

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The US operations also include PPM Holdings, Inc. ('PPM'), Prudential's US internal and institutional investment management operation, and National Planning Holdings, Inc. ('NPH'), Prudential's US affiliated independent broker dealer network. During 2017, NPH sold the business of the four firms in its independent broker-dealer network to LPL Financial LLC ('LPL'). As at 31 December 2017, Prudential's US operations had more than 4 million policies and contracts in force and PPM managed approximately £82.2 billion of assets. In 2017, new business premiums totalled £16,622 million.

Market overview

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 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[2], 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.

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Additional information on products

The following table shows total new business premiums in the United States by product line and distribution channel for the periods indicated. Total new business premiums include Jackson's deposits for investment contracts with limited or no life contingencies.

	Actual Exchange Rate Year Ended 31 December		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
By Product			
Annuities			
Fixed annuities			
Fixed interest rate	**434**	533	462
Fixed index	**295**	508	458
Immediate	**20**	22	15
Variable annuities	**11,536**	10,653	11,977
Elite Access (Variable annuities)	**2,013**	2,056	3,144
Total	**14,298**	13,772	16,056
Institutional products			
GICs, funding agreements and Federal Home Loan Bank of Indianapolis (FHLBI) funding agreements	**2,324**	1,836	1,230
Total	**16,622**	15,608	17,286
By Distribution Channel			
Independent broker dealer	**9,637**	8,809	10,145
Bank	**1,948**	2,137	2,730
Regional broker dealer	**2,228**	2,199	2,634
Independent insurance agents	**485**	627	547
Institutional products	**2,324**	1,836	1,230
Total	**16,622**	15,608	17,286

Of the total new business premiums of £16,622 million in 2017 (2016: £15,608 million; 2015: £17,286 million), £14,298 million (2016: £13,772 million; 2015: £16,056 million) were single premiums, and £2,324 million (2016: £1,836 million; 2015: £1,230 million) were institutional product premiums. There were no regular premiums.

Annuities

Fixed annuities

Fixed interest rate annuities

In 2017, fixed interest rate annuities accounted for 3 per cent (2016: 3 per cent) of total new business premiums and 7 per cent (2016: 8 per cent) of policy and contract liabilities of the US operations. Fixed interest rate annuities are primarily deferred annuity products that are used for asset accumulation in retirement planning and for providing income in retirement. They permit tax-deferred accumulation of funds and flexible payout options.

The contract holder of a fixed interest rate annuity pays Jackson a premium, which is credited to the contract holder's account. Periodically, interest is credited to the contract holder's account and in some cases administrative charges are deducted from the contract holder's account. Jackson makes benefit payments at a future date as specified in the contract based on the value of the contract holder's

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account at that date. On more than 94 per cent (2016: 94 per cent) of in-force business, Jackson may reset the interest rate on each contract anniversary, subject to a guaranteed minimum, in line with state regulations. When the annuity matures, Jackson either pays the contract holder the amount in the contract holder account or begins making payments to the contract holder in the form of an immediate annuity product.

At 31 December 2017, Jackson had fixed interest rate annuities totalling £12.6 billion (US$17.0 billion) (2016: £14.2 billion (US$17.6 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).

Fixed interest rate annuities are subject to early surrender charges for the first six to nine years of the contract. In addition, the contract may be subject to a market value adjustment ('MVA') at the time of surrender. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson's profits on fixed interest rate annuities arise primarily from the spread between the return it earns on investments and the interest credited to the contract holder's account, less expenses. The fixed interest rate annuity portfolio could be impacted by the continued low interest rate environment as lower investment portfolio earned rates could result in reduced spread income. In addition, increased surrenders and lower sales could result if customers seek higher yielding alternative investment opportunities elsewhere.

Approximately 60 per cent (2016: 62 per cent) of the fixed interest rate annuities Jackson wrote in 2017 provide for a market value adjustment that could be positive or negative on surrenders in the surrender period of the policy. This formula-based adjustment approximates the change in value that assets supporting the product would realise as interest rates move up or down. The minimum guaranteed rate is not affected by this adjustment. While the MVA feature minimizes the surrender risk associated with certain fixed interest rate annuities, Jackson still bears a portion of the surrender risk on policies without this feature, and the investment risk on all fixed interest rate annuities.

Fixed index annuities

Fixed index annuities accounted for 2 per cent (2016: 3 per cent) of total new business premiums in 2017 and 5 per cent (2016: 6 per cent) of Jackson's policy and contract liabilities. Fixed index annuities vary in structure, but generally are deferred annuities that enable the contract holder to obtain a portion of an equity-linked return (based on participation rates and caps) and provide a guaranteed minimum return. These guaranteed minimum rates are generally set at 1.0 per cent to 3.0 per cent on index funds. At 31 December 2017, Jackson had fixed index annuities allocated to index funds totalling £6.3 billion (US$8.6 billion) (2016: £7.3 billion (US$9.0 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 guaranteed rate). Jackson also offers fixed interest accounts on some fixed index annuity products. At 31 December 2017, fixed interest accounts on fixed index annuities totalled £2.5 billion (US$3.4 billion) (2016: £2.6 billion (US$3.2 billion)) in account value with minimum guaranteed rates ranging 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).

Jackson's profit arises from the investment income earned and the fees charged on the contract, less the expenses incurred, which include the costs of hedging the equity component of the interest credited to the contract. Fixed index annuities are subject to early surrender charges for the first five to 12 years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value.

Jackson hedges the equity return risk on fixed index products using offsetting equity exposure in the variable annuity product. The cost of these hedges is taken into account in setting the index participation rates or caps. Jackson bears the investment risk and a portion of the surrender risk on these products.

Variable annuities

In 2017, variable annuities accounted for 81 per cent (2016: 81 per cent) of total new business premiums and 77 per cent (2016: 74 per cent) of Jackson's policy and contract liabilities. 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.

The contract holder can allocate the premiums between a variety of variable sub-accounts with a choice of fund managers and/or a guaranteed fixed interest rate option. The contract holder's premiums allocated to the variable accounts are held apart from Jackson's general account assets, in a separate account, which is analogous to a unit-linked fund. The value of the portion of the separate account allocated to variable sub-accounts fluctuates with the underlying investments. Most variable annuities are subject to early surrender charges for the first three to nine years of the contract. During the surrender charge period, the contract holder may cancel the contract for the surrender value. Jackson offers some fully liquid variable annuity products that have no surrender charges.

At 31 December 2017, Jackson had variable annuity funds in fixed accounts totalling £5.9 billion (US$8.0 billion) (2016: £7.3 billion (US$9.0 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).

Jackson offers a choice of guaranteed benefit options within its variable annuity product portfolio, which customers can elect 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. These options include the guaranteed minimum death benefits ('GMDB'), which guarantee that, upon death of the owner, the beneficiary receives at least the minimum value regardless of past market performance. In addition, there are three other types of guarantees: guaranteed minimum withdrawal benefits ('GMWB'), guaranteed minimum accumulation benefits ('GMAB') and guaranteed minimum income benefits ('GMIB'). GMWBs provide a guaranteed return of the minimum value by allowing for periodic withdrawals that are limited to a maximum percentage of the initial premium. One version of the GMWBs provides for a minimum annual withdrawal amount that is guaranteed for the contract holder's life without annuitisation. GMABs generally provide a guarantee for a return of the defined minimum value after a specified period. Jackson no longer offers GMABs. GMIBs provide for a minimum level of benefits upon annuitisation regardless of the value of the investments underlying the contract at the time of annuitisation. Jackson no longer offers GMIBs, with existing coverage being substantially reinsured with an unaffiliated reinsurer.

As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of hedging and eventual payment of any guaranteed benefits. In addition to being a profitable book of business, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson's equity exposure. Jackson believes that the internal management of equity risk coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure.

Profits in the variable annuity book of business will continue to be subject to the impact of market movements on both sales and allocations to the variable accounts and the effects of the economic

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hedging programme. Hedging is conducted based on an economic approach so the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility. Further information on Jackson's hedging or derivative programme is provided in the 'Disciplined risk management' section below.

Aggregate distribution of account values

As described above, at 31 December 2017, Jackson had fixed annuities (fixed interest rate and fixed index) and variable annuities fixed options totalling £27.3 billion (2016: £31.4 billion) in account value with minimum guaranteed rates. The table below shows the distribution of these account values within the range of minimum guaranteed interest rates as at 31 December 2017 and 2016:

	Account value	
	2017	**2016**
	£m	**£m**
Minimum guaranteed interest rates annuities		
1.0%	**6,887**	7,765
> 1.0% 2.0%	**7,385**	8,718
> 2.0% 3.0%	**9,799**	11,249
> 3.0% 4.0%	**1,272**	1,456
> 4.0% 5.0%	**1,744**	1,954
> 5.0% 5.5%	**220**	247
Total	**27,307**	31,389

Life insurance

Background

Jackson discontinued new sales of life insurance products in 2012. The discontinued life insurance products accounted for 9 per cent (2016: 10 per cent) of Jackson's policy and contract liabilities in 2017. Life products include term life and interest sensitive life (universal life and variable universal life.) Term life provides protection for a defined period and a benefit that is payable to a designated beneficiary upon death of the insured. Universal life provides permanent individual life insurance for the life of the insured and includes a savings element. Variable universal life is a type of life insurance policy that combines death benefit protection with the ability for the contract holder account to be invested in separate account funds. Jackson's life insurance book has delivered consistent profitability, driven primarily by positive mortality and persistency margins. 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.

Aggregate distribution of account values

Excluding the business formerly of the REALIC operations acquired in 2012 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 (US$8.5 billion) (2016: £7.1 billion (US$8.8 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). The

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table below shows the distribution of the interest-sensitive life business' account values within this range of minimum guaranteed interest rates as at 31 December 2017 and 2016:

	Account value	
	2017	**2016**
	£m	**£m**
Minimum guaranteed interest rates life insurance		
> 2.0% 3.0%	**221**	243
> 3.0% 4.0%	**2,341**	2,675
> 4.0% 5.0%	**2,059**	2,333
> 5.0% 6.0%	**1,651**	1,839
Total	**6,272**	7,090

Institutional products

Institutional products consist of traditional guaranteed investment contracts ('GICs'), funding agreements (including agreements issued in conjunction with Jackson's participation in the US Federal Home Loan Bank of Indianapolis ('FHLBI') programme) and Medium-Term Note funding agreements. In 2017, institutional products accounted for 14 per cent (2016: 12 per cent) of total new business premiums and 1 per cent (2016: 1 per cent) of Jackson's policy and contract liabilities. The GICs are marketed by Jackson's institutional products department to defined contribution pension and profit sharing retirement plans. Funding agreements are marketed to institutional investors, including corporate cash accounts and securities lending funds, as well as money market funds, and are issued to the FHLBI in connection with its programme. Jackson makes its profit on the spread between the yield on its investments and the interest rate credited to contract holders.

Traditional guaranteed investment contracts

Under a traditional GIC, the contract holder makes a lump sum deposit. Interest is paid on the deposited funds, usually on a quarterly basis. The interest rate paid is fixed and is established when the contract is issued.

Traditional GICs have a specified term, usually two to three years, and typically provide for phased payouts. Jackson tailors the scheduled payouts to meet the liquidity needs of the particular retirement plan. If deposited funds are withdrawn earlier than scheduled, an adjustment is made that approximates a market value adjustment.

Jackson sells GICs to retirement plans, in particular 401(k) plans. The traditional GIC market is extremely competitive, due in part to competition from synthetic GICs, which Jackson does not sell.

Funding agreements

Under a funding agreement, the contract holder either makes a lump sum deposit or makes specified periodic deposits. Jackson agrees to pay a rate of interest, which may be fixed or a floating short-term interest rate linked to an external index. Interest is paid quarterly to the contract holder. The duration of the funding agreements range between one and thirty years. At the end of the specified term, contract holders may re-deposit the principal in another funding agreement.

Typically, brokerage accounts and money market mutual funds are required to invest a portion of their funds in cash or cash equivalents to ensure sufficient liquidity to meet their customers' requirements. The funding agreements permit termination by the contract holder on seven to 90 days' notice, and thus qualify as cash equivalents for the clients' purposes. In 2017 and 2016, there were no funding agreements terminable by the contract holder with less than 90 days' notice.

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Jackson is a member of the FHLBI. Membership allows Jackson access to advances from FHLBI that are collateralised by mortgage related assets in Jackson's investment portfolio. These advances are in the form of funding agreements issued to FHLBI.

Medium term note funding agreements

Jackson has also established European and global medium-term note programmes. The notes offered may be denominated in any currency with a fixed or floating interest rate. Notes are issued to institutional investors by a special purpose vehicle and are secured by funding agreements issued by Jackson.

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 broker-dealers, wirehouses, and banks. For variable annuity sales, Jackson is the leader in the independent broker-dealer, bank and wirehouse channels[4] and second in regional firms[4].

Jackson's distribution strength also sets us apart from our competitors. Our wholesaling force is the largest[3] 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[3].

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.

Regional broker dealers and wirehouses

Jackson's Regional Broker Dealer ('RBD') team provides dedicated service and support to regional brokerage firms and wirehouses. Regional broker dealers are a hybrid between independent broker dealers and wirehouses. Like representatives who work for wirehouses, financial representatives at regional broker dealers are employees of the firm. However, unlike wirehouses, RBD firms have limited institutional investment banking services. The RBD team develops relationships with regional firms throughout the US and provides customised materials and support to meet their specialised advisory needs.

Jackson's RBD team supports more than 41,000 representatives in regional broker dealers and wirehouses.

Banks, credit unions and other financial institutions

Jackson's Institutional Marketing Group distributes annuity products through banks, credit unions and other financial institutions and through third party marketing organisations that serve these institutions. Jackson is a leading provider of annuities offered through banks and credit unions and at 31 December 2017 had access to more than 32,000 financial institution representatives through existing relationships with banks and credit unions. Jackson has established distribution relationships with medium sized regional banks, which it believes are unlikely to develop their own insurance product capability.

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Independent broker dealers

Jackson's retail distribution has been managed by Prudential's independent broker dealer network, NPH, prior to the sale to LPL, as described above.

Institutional products department

Jackson markets its institutional products through its institutional products department. It has direct contacts with banks, municipalities, asset management firms and direct plan sponsors. Institutional products are distributed and marketed through intermediaries to these groups.

PPM

PPM is Prudential's US institutional investment management operation, with its primary office in Chicago. PPM manages assets for Prudential's US, UK and Asian affiliates. PPM provides affiliated and unaffiliated institutional clients with investment services including managing assets for separate accounts, US mutual funds and similar foreign pooled investment vehicles, a collateralised loan obligation and private equity funds. PPM's strategy is focused on managing existing assets effectively, maximising the benefits derived from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Group. Recently, PPM announced plans to expand its marketing and distribution capabilities in order to support a broader range of investors, particularly in the unaffiliated institutional space.

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.

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[5] 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)[5] along with fixed annuity products (US$38.9 billion)[5] 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[5] 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.

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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.

Disciplined risk management

Jackson operates within a well-defined risk framework aligned with the overall Prudential Group risk appetite. 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.

Jackson's hedging or 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, as explained further in note C7.3 to the consolidated financial statements. Jackson is able to aggregate financial risks across the company, obtain a unified view of our risk positions, and actively manage net risks through an economically-based hedging programme. A key element of our core strategy is to protect the company from severe economic scenarios while maintaining adequate regulatory capital. We benefit from the fact that the competitive environment continues to favour companies with robust financial strength and a demonstrated track record of financial discipline, both key elements of our long-term strategy.

In general, Jackson's results are affected by fluctuations in economic and market conditions, especially interest rates, credit conditions and equity markets. The profitability of Jackson's spread based business depends largely on its ability to manage interest rate exposure, as well as the credit and other risks inherent in its investment portfolio. Jackson designs its products and manages the investments and liabilities to reduce overall interest rate sensitivity. This has the effect of moderating the impact on Prudential's results from changes in prevailing interest rates.

Jackson's exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Changes in interest rates, either upward or downward, including changes in the difference between the levels of prevailing short-term and long-term rates, can expose Jackson to the risk of not earning anticipated spreads. For example, if interest rates increase and/or competitors offer higher crediting rates, withdrawals on annuity contracts may increase as contract holders seek higher investment returns elsewhere. In response, Jackson could (i) raise its crediting rates to stem withdrawals, decreasing its spread; (ii) sell assets which may have depressed values in a high interest rate environment to fund policyholder payments, creating realised investment losses; or (iii) pay out from existing cash which would otherwise have been invested and earned interest at the higher interest rates.

Conversely, if interest rates decrease, withdrawals from annuity contracts may decrease relative to original expectations, creating more cash than expected to be invested at lower rates. Jackson may have the ability to lower the rates it credits to contract holders as a result, but may be forced to maintain crediting rates for competitive reasons or because there are minimum interest rate guarantees in certain contracts. In either case, the spread earned by Jackson would be compressed.

The majority of assets backing the spread-based business are invested in fixed income securities. Jackson actively manages its investment and derivative portfolio, considering a variety of factors, including the relationship between the expected duration of its assets and its liabilities.

Recent periods have been characterised by persistent low interest rates. A prolonged low interest rate environment may result in a lengthening of maturities of the fixed annuity and interest-sensitive life contract holder liabilities from initial estimates, primarily due to lower policy lapses. As interest rates remain at low levels, Jackson may also have to reinvest the cash it receives as interest or proceeds from investments that have matured or that have been sold at lower yields, reducing its investment margins. Moreover, borrowers may prepay or redeem the securities in its investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbates this risk.

The majority of Jackson's fixed annuities, variable annuity fixed account options and life products were designed with contractual provisions that allow crediting rates to be re-set annually, subject to minimum crediting rate guarantees. Therefore, on new business written, as well as on in-force business above minimum guarantees, Jackson has adjusted, and will continue to adjust, crediting rates in order to maintain targeted interest rate spreads.

Lowering crediting rates helps to mitigate the effect of spread compression, but the spreads could still decline as Jackson is typically only entitled to reset the crediting rates at limited pre-established intervals and the re-setting is subject to the guaranteed minimum rates. As at 31 December 2017, approximately 87 per cent of Jackson's fixed annuities, variable annuity fixed account options and interest-sensitive life business account values correspond to crediting rates that are at the minimum guaranteed interest rates (2016: 86 per cent). Tabular disclosures are provided above on the distribution of the account values of these businesses within the range of their contractual minimum guaranteed interest rates. The tables demonstrate that approximately 72 per cent (2016: 73 per cent) of Jackson's combined fixed annuities, variable annuity fixed account options and interest sensitive life business account values of £24 billion (2016: £28 billion) have contractual minimum rates of 3 per cent or less.

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Jackson's expectation for future spreads is also an important component in the amortisation of deferred acquisition costs. Significantly lower spreads may cause it to accelerate amortisation, thereby reducing total IFRS profit in the affected reporting period. Low market interest rates could also reduce Jackson's return on investments that are held to support the company's capital. In addition, changes in interest rates will affect the net unrealised gain or loss position of Jackson's available-for-sale fixed income securities, which is reported as a component of other comprehensive income. Further information on the factors affecting the pricing of products and asset liability management of Jackson is provided below.

In addition to the impact on Jackson's spread product profitability, a prolonged period during which interest rates remain at levels lower than those anticipated in its pricing may result in greater costs associated with certain of Jackson's product features which guarantee benefits, and also result in higher costs for derivative instruments used to hedge certain of its product risks. Reflecting these impacts in recoverability and loss recognition testing under US GAAP as 'grandfathered' under IFRS may require Jackson to accelerate the amortisation of DAC as noted above, as well as to increase required reserves for future contract holder benefits. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and a prolonged period of low interest rates may increase the statutory reserves and capital Jackson is required to hold.

Accordingly, without active management, a prolonged low interest rate environment may materially affect Jackson's financial position, results of operations and cash flows. However, Jackson has and continues to adapt proactively its asset-liability management, hedging programme, product design and pricing and crediting rate strategies to mitigate the downward pressures created by the prolonged low interest rate environment.

The sensitivity of Jackson's IFRS basis profit or loss and shareholders' equity to changes in interest rates is provided in note C7.3 to the consolidated financial statements.

The profitability of Jackson's fee-based business depends largely on its ability to manage equity market risk. As the investment return on the separate account assets is attributed directly to the contract holders, Jackson's profit arises from the fees charged on the contracts, less the expenses incurred, which include the costs of guarantees. In addition to being a profitable book of business, the variable annuity book also provides an opportunity to utilise the offsetting equity risk among various lines of business to effectively manage Jackson's equity exposure. Jackson believes that the internal management of equity risk, coupled with the utilisation of external derivative instruments where necessary, continues to provide a cost-effective method of managing equity exposure. Profits in the variable annuity book of business will continue to be subject to the impact of market movements both on sales and allocations to the variable accounts and the effects of the economic hedging program. While Jackson hedges its risk on an economic basis, the nature and duration of the hedging instruments, which are recorded at fair value through the income statement, will fluctuate and produce some accounting volatility.

Jackson continues to believe that, on a long-term economic basis, its equity exposure remains well managed.

Factors affecting pricing of products and asset liability management

Jackson prices products based on a variety of assumptions including, but not limited to, mortality, investment yields, expenses and contract holder behaviour. Pricing is influenced by Jackson's objectives for return on capital and by competition. Although Jackson includes a profit margin in the price of its products, the variation between the assumptions and actual experience can result in the products being more or less profitable than originally assumed. This variation can be significant.

Jackson designs its interest sensitive products and conducts its investment operations to match closely the duration of the assets in its investment portfolio with the annuity, life, and guaranteed investment contract product obligations. Jackson seeks to achieve a target spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed-rate securities. Jackson also enters into options and futures contracts to hedge equity related movements in its products.

Jackson segregates its investment portfolio for certain investment management purposes, and as part of its overall investment strategy, into four portfolios: life and fixed annuities without market value adjustment, fixed annuities with market value adjustment, fixed index annuities and institutional liabilities. The portfolios backing life and fixed annuities with and without market value adjustments and the fixed index annuities have similar characteristics and differ primarily in duration. The portfolio backing the institutional liabilities has its own mix of investments that meet more limited duration tolerances. Consequently, the institutional portfolio is managed to permit less interest rate sensitivity and has limited exposure to mortgage backed securities. At 31 December 2017, less than one per cent of the institutional portfolio was invested in residential mortgage backed securities.

The fixed-rate products may incorporate surrender charges, market value adjustments, two-tiered interest rate structures or other limitations relating to when policies can be surrendered for cash, in order to encourage persistency. As of 31 December 2017, 52 per cent of Jackson's fixed annuity reserves had surrender penalties or other withdrawal restrictions. Substantially all of the institutional portfolio had withdrawal restrictions or market value adjustment provisions.

Fixed index annuities issued by Jackson also include an equity component that is hedged using the offsetting equity exposure in the variable annuity product. The equity component of these annuities constitutes an embedded derivative under 'grandfathered' US GAAP that is carried at fair value, as are other derivative instruments.

Guaranteed benefits issued by Jackson in connection with the sales of variable annuity contracts expose Jackson to equity risk as the benefits generally become payable when equity markets decline and contract values fall below the guaranteed amount. The accounting measurement of the liability for certain of these benefits differs from a true fair value calculation with changes in value recorded in income. Jackson manages the exposure of the tail risk associated with the equity exposure using equity options and futures contracts, which are also carried at fair value. Jackson seeks to manage the economic risk associated with these contracts and, therefore, has not explicitly hedged its fair value risk as determined under accounting rules. In addition, certain benefits have mortality risk and are therefore precluded from being carried at fair value. As a result of these factors, the income statement may include a timing mismatch related to changes in fair value. However, as demonstrated during the economic crisis, subsequent rebound and recent volatility in the equity markets, Jackson's hedges have effectively operated as designed.

Notes

1. Source: Third Quarter 2017 SNL Financial

2. ©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. Total Sales by Contract 3Q YTD 2017. Jackson's Perspective II for base states ranks #1 and Elite Access for base states ranks #8 for Total VA Sales out of 991 VA contracts with reported sales to Morningstar's quarterly sales survey as of 3Q YTD 2017.

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

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5.

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

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United Kingdom and Europe

Introduction

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.

As at 31 December 2017, M&G Prudential had

- total funds under management[1] of £351 billion;
- over 7.2 million customers; and
- products registered in 24 jurisdictions around the world.

Market overview

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[1] 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.

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[2] 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[1] 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.

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.

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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.

Refer to 'Additional information on the long-term products of M&G Prudential' for further details on products.

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. 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.

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Additional information on the long-term products of M&G Prudential

Long-term products

M&G Prudential's long-term products in the United Kingdom consist of life insurance, pension products and pensions annuities. The following table shows M&G Prudential's new business insurance and investment premiums by product line for the periods indicated. New business premiums include deposits for policies with limited or no life contingencies. M&G Prudential also distributes life insurance products, primarily investment bonds, in other European countries and has a business in Poland which primarily sells with-profits savings and protection products. The volume of such business is relatively small and is included in the table below.

	Year Ended 31 December		
	2017	2016	2015
	£m	£m	£m
Individual annuities	**223**	546	565
Bonds	**3,509**	3,834	3,327
Corporate Pensions	**233**	231	310
Individual Pensions	**5,779**	2,567	1,217
Income drawdown	**2,218**	1,649	1,024
Other products	**1,269**	1,186	691
Wholesale			1,508
Total new business premiums	**13,231**	10,013	8,642

Of the total new business premiums of £13,231 million (2016: £10,013 million; 2015: £8,642 million), £13,044 million (2016: £9,836 million; 2015: £8,463 million) were for single premiums and £187 million (2016: £177 million; 2015: £179 million) were for regular premiums.

Pension annuities

Following the decision taken in 2016 to curtail retail sales of annuity business, during 2017, M&G Prudential delivered an annuity service which gives retiring customers access to a panel of annuity providers rather than access to a M&G Prudential's annuity. This has been rolled out to approximately 50 per cent of the pension books.

M&G Prudential offers conventional annuities which include level (non-increasing), fixed increase and RPI annuities. In 2017, new business premiums for these conventional annuities were £223 million (2016: £495 million).

Bonds

Onshore Bonds

M&G Prudential offers customers a range of investment funds to meet different risk and reward objectives. M&G Prudential's main onshore bond product wrapper is the Prudential Investment Plan ('PIP'). Through this plan, based on a single premium with no fixed term, customers have the option to invest in the with-profits fund through PruFund or in a range of unit-linked investment funds.

PIP also gives financial advisers the opportunity to choose from different external fund management groups and the flexibility to make changes to portfolio and asset allocation over time. In 2017, new business premiums from the unit-linked option within on-shore bond wrappers, including PIP were £186 million (2016: £165 million).

M&G Prudential offers a unitised and smoothed with-profits investment fund called PruFund, which is designed to provide increased transparency and smoothed investment returns to the customer with a choice of Cautious, Growth or Risk-Managed funds. PruFund also offers clients an optional guarantee on the initial investment in either the Cautious or Growth funds with terms between ten and fifteen years. PruFund is available across M&G Prudential's range of tax wrappers including individual pensions, income drawdown, ISA and onshore and offshore bonds. In 2017, total bonds new business premiums attributable to PruFund, including new business through PIP, was £2,342 million (2016: £2,608 million).

With-profits bonds aim to provide capital growth over the medium to long term, and access to a range of investment sectors without the costs and risks associated with direct investment into these sectors. Capital growth for the policyholder on with-profits bonds apart from PruFund is achieved by the addition of reversionary or annual bonuses, which are credited to the bond on a daily basis from investment returns achieved within PAC's long-term with-profits fund, offset by charges and expenses incurred in the fund. A final bonus may also be added when the bond is surrendered. The PruFund return to policyholders is based on a published expected growth rate, updated quarterly, combined with unit price adjustments which aim to deliver the return on the underlying fund in a more stable way. In contrast the capital return on unit-linked bonds directly reflects the movement in the value of the assets underlying those funds. When funds invested in PAC's long-term with-profits fund are either fully or partially withdrawn, PAC may apply a market value adjustment to the amount paid out.

The sales growth across M&G Prudential's with-profits range has been achieved on the back of sustained strong investment performance in its Life Fund over a number of years, reflecting the benefits of its diversified investment policy. M&G Prudential believes that this market will continue to see further growth as investors turn to trusted and financially strong brands and products offering an element of capital protection.

In addition M&G Prudential offers an open architecture onshore bond, the Prudential Onshore Portfolio Bond, which allows customers to access a wide range of quoted UK investments. New business premiums from this product were £80 million in 2017 (2016: £78 million). The new business premiums for other onshore bonds were £52 million in 2017 (2016: £106 million).

Offshore Bonds

M&G Prudential's offshore bond products are the Prudential International Investment Bond and the Prudential International Investment Portfolio offering clients access to a wide range of quoted UK investments. M&G Prudential's offshore bond sales fell by 3 per cent to £849 million in 2017 (2016: £877 million).

Pension and flexi-income drawdown products

M&G Prudential provides both corporate, individual pension and flexi-access drawdown products. Pension products are tax advantaged long-term savings products that comply with rules established by the HM Revenue and Customs ('HMRC') and are designed to supplement state provided pensions.

These products provide policyholders with a number of options at retirement. From age 55 onwards, policyholders may elect to use part or all of their maturity benefits to purchase a pension annuity, they may choose to draw-down funds without purchasing an annuity, they may delay taking any benefits, take cash or take a combination of these options. They are also permitted to take a portion as a tax-free lump sum.

Income drawdown products have historically provided a 'bridge' between pensions and annuities, allowing customers to access pension savings from age 55, subject to certain limits. These products help customers manage their pensions through the various stages of retirement, and also offer flexibility while providing potential for capital growth. Income drawdown has proved popular with customers seeking greater flexibility than that offered by a traditional annuity product, but preferring to draw funds gradually rather than withdrawing all of their savings as cash. Depending on the size of their pension pot and the individual's tax position, it may also be more tax efficient for a customer to invest in a

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drawdown product rather than to take cash. Many of the pension products M&G Prudential offers are with-profits products or offer the option to have all or part of the contributions allocated to the with-profits fund. Where funds invested in the with-profits fund are withdrawn prior to the pension date specified by the policyholder, M&G Prudential may apply a market value adjustment (MVA) to the amount paid out. MVAs do not apply to the PruFund investment options. The remaining pension products are non-participating products, which include unit-linked products.

Individual Pensions and Income Drawdown

M&G Prudential's individual pension range offers unit-linked and unitised with-profits products, including products that meet the criteria of the UK government's stakeholder pension program.

M&G Prudential launched its new Retirement Account proposition, which offers one account for both pension savings and income drawdown and can accept transfers from existing plans, to the intermediated market, including its own advised sales force, PFP, towards the end of the third quarter of 2016. It is a digital proposition with an open charging structure separating charges out for the tax wrapper, funds and guarantees and offers improved service to advisers and customers. The proposition has been well received in the market, securing significant sales since launch and accounting for 82% of total individual pension and income drawdown sales in 2017.

For products with drawdown features, the investment risk and mortality risk remains with the policyholder, payments are not guaranteed, and tend to cost more to administer. In the past, this has meant that the option to draw down income tended to apply mainly to more sophisticated policyholders commonly with larger retirement funds. The changes in the rules governing access to pension savings mean that consumers now have more choice and flexibility in how they access their retirement income and drawdown has become more popular for customers starting to take income in retirement. Any income taken from pension savings in excess of the allowable tax-free lump sum is taxable at a customer's marginal tax rate. Many more customers than before are taking their tax free cash and leaving their funds invested. To further extend the proposition and to continue to meet customers' needs for secure income whilst still retaining some flexibility, a minimum income guarantee is offered as an additional option.

Corporate Pensions

There are two categories of corporate pension products: defined benefit and defined contribution. M&G Prudential has an established defined benefit plan client base covering the small to medium sized employer market. M&G Prudential's defined contribution client base ranges from small unlisted companies to some of the largest companies in the United Kingdom as well as a number of clients in the public sector (in particular where M&G Prudential offers the Additional Voluntary Contribution ('AVC') facility). Additional Voluntary Contribution plans enable employees to make additional pension contributions, either regularly or as a lump sum, to supplement their occupational pension plans. M&G Prudential administers corporate pensions for c.600,000 scheme members sponsored by some of the UK's largest employers and has also built a very strong position in the provision of with-profits AVC arrangements. M&G Prudential provides AVCs to 74 of the 99 Local Government Authorities in the UK.

Other products

Other products include PruFund ISA, life insurance and equity release mortgages, which have been closed to new business since November 2009.

Shareholders' interests in M&G Prudential's long-term insurance business

In common with other UK long-term insurance companies, M&G Prudential's products are structured as either with-profits products or non-participating (including unit-linked) products. With-profits policies are supported by a with-profits fund. M&G Prudential's primary with-profits fund is part of PAC's long-term fund. For statutory and management purposes, PAC's long-term fund consists of a number of sub-funds in which shareholders and policyholders have varying interests.

With-profits products

With-profits policies are supported by a with-profits sub-fund and can be single premium (for example, Onshore Bonds) or regular premium (for example, certain pension products). M&G Prudential's primary with-profits sub-fund is part of The Prudential Assurance Company Limited (PAC). The return to shareholders on virtually all M&G Prudential's with-profits products is in the form of a statutory transfer to PAC shareholders' funds. This is analogous to a dividend from PAC's with-profits sub-fund, and is dependent upon the bonuses credited or declared on policies in that year. M&G Prudential's with-profits policyholders currently receive 90 per cent of the distribution from the main with-profits sub-fund as bonus additions to their policies, while shareholders receive 10 per cent as a statutory transfer.

With-profits products provide an equity-type return to policyholders through bonuses that are 'smoothed'. There are two types of bonuses: 'annual' and 'final'. Annual bonuses, often referred to as reversionary 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 only guaranteed until the next bonus declaration. Final bonuses are only credited on a product's maturity or surrender or on the death of the policyholder. Final bonuses can represent a substantial portion of the ultimate return to policyholders.

In addition to the with-profits policies described above, the with-profits sub-fund also contains the Pru-Fund range of with-profits contracts, which offer policyholders a choice of investment profiles. Unlike the more traditional with-profits contracts no reversionary 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 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. 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.

With-profits products provide benefits that are generally either the value of the premiums paid, less charges and fees and with the addition of declared bonuses, or the guaranteed death benefit with the addition of declared bonuses. Smoothing of investment returns is an important feature of with-profits products. It is designed to reduce the impact of fluctuations in investment return from year to year and is accomplished predominantly through the level of final bonuses declared.

PAC's board of directors, with the advice of its Chief Actuary and its with-profits Actuary, determines the amount of annual and final bonuses to be declared each year on each group of contracts.

When determining policy payouts, including final bonuses, PAC follows an actuarial practice of considering 'asset shares' for specimen policies. Asset shares broadly reflect the value of premiums paid in respect of a policy accumulated at the investment return on the assets PAC notionally attributes to the policy. In calculating asset shares, PAC takes into account the following items:

- the cost of mortality risk and other guarantees (where applicable);
- the effect of taxation;
- management expenses, charges and commissions;
- the proportion of the amount determined to be distributable to shareholders; and

the surplus arising from surrenders, non-participating business included in the with-profits fund and other miscellaneous sources.

However, PAC does not take into account the surplus assets of the long-term fund, or investment return earned on them, in calculating asset shares. The determination of final bonuses takes into account asset shares, as well as the need to smooth claim values and payments from year to year, competitive considerations and the desire to treat customers fairly.

PAC is required by UK law and regulation to consider the fair treatment of its customers in setting bonus levels. The concept of treating customers fairly is established by statute but is not defined. In practice, it provides one of the guiding principles for decision making in respect of with-profits products.

The overall return to policyholders is an important competitive measure for attracting new business. The ability to declare competitive bonuses depends, in part, on the financial strength of PAC's long-term fund, enabling it to maintain high levels of investment in equities and real estate, if it wishes to do so. Equities and real estate have historically over the long-term provided a return in excess of fixed interest securities.

In 2017, PAC declared a total surplus of £2,385 million (2016: £2,198 million) from PAC's primary with-profits sub-fund, of which £2,152 million (2016: £1,983 million) was added to with-profits policies and £233 million net of tax (2016: £215 million) was distributed to shareholders of which 15 per cent was from PruFund business (2016:10 per cent). These amounts included annual bonus rates of 1.75 per cent until 28 February 2017 and 1.5 per cent for the remainder of the year for Prudence Bond; and 1.75 per cent until 31 March 2017 followed by 1.5 per cent for the remainder of the year for personal pensions.

The closed Scottish Amicable Insurance Fund ('SAIF') declared total bonuses in 2017 of £354 million compared with £349 million in 2016. Shareholders have no interest in profits from the SAIF fund, although they are entitled to the investment management fees paid by this business.

The Defined Charge Participating Sub-Fund (DCPSF) comprises the accumulated investment content of premiums paid in respect of the defined charge participating with-profits business issued in France and the defined charge participating with-profits business reassured into PAC from Prudential International Assurance plc and Canada Life (Europe) Assurance Ltd. It also includes the portfolio of with-profits annuity policies acquired from Equitable Life in 2007. All profits in this fund accrue to policyholders in the DCPSF.

Surplus Assets in PAC's With-profits Fund

The assets of the main with-profits sub-fund within the long-term fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital. The amount payable over time to policyholders from the with-profits sub-fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits sub-fund has accumulated over many years from various sources.

The surplus assets, as working capital, enables M&G Prudential to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

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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.

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.

Non-participating business

The profits from almost all of the new non-participating business accrue solely to shareholders.

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.

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Competition

General

There are other significant participants in each of the financial services markets in which Prudential operates. Our competitors include both mutual and stock financial companies. In addition, regulatory and other developments in many of Prudential's markets have blurred traditional financial service industry lines and opened the market to new competitors and increased competition. In some of Prudential's markets, other companies may have greater financial resources, allowing them to benefit from economies of scale, and may have stronger brands than Prudential does in that market.

The principal competitive factors affecting the sale of Prudential's products in its chosen markets are:

- price and yields offered,
- financial strength and ratings,
- commission levels, charges and other expenses,
- range of product lines and product quality,
- brand strength, including reputation, quality of service and use of technological advances,
- distribution channels,
- investment management performance and
- historical bonus/contract enhancement and bonus interest levels.

An important competitive factor is the ratings Prudential receives in some of its target markets, most notably in the United States, from recognised rating organisations. The intermediaries with whom Prudential works, including financial advisers, tied agents, brokers, wholesalers and financial institutions consider ratings as one factor in determining which provider to purchase financial products from.

Prudential offers different products in its different markets in Asia, the United Kingdom and the United States and, accordingly, faces different competitors and different types of competition in these markets. In all of the markets in which Prudential operates, its products are not unique and, accordingly, it faces competition from market participants who manufacture a varying range of similar and identical products.

Asia

The competitive landscape across the Asia Pacific region differs widely by geographical market, reflecting differing levels of market maturity and regulation. Prudential's competitors include both the subsidiaries of global life insurers and local domestic (including state-owned) entities. The majority of local domestic life insurers in the Asia Pacific region remain focused on their core home markets. The developed and liberalised markets of Hong Kong and Singapore are dominated by subsidiaries and branches of global life insurance groups. The developing markets in South East Asia such as Indonesia, Vietnam and the Philippines also see a high level of participation by global life insurance groups. The large and relatively mature markets, such as Taiwan, are dominated by local domestic insurers. In certain countries with continued foreign ownership restrictions (such as China and India), the life insurance markets are dominated by local domestic insurers or by joint venture entities between global insurance groups and local companies.

Prudential's principal competitors in the Asia Pacific region 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 e.g. China Life, China Pacific and Ping An in China, HSBC Life in Hong Kong and Muang Thai Life.

United States

Prudential's insurance operations in the United States operate under the Jackson brand. Prudential is not affiliated with Prudential Financial, Inc. or its subsidiary, The Prudential Insurance Company of America.

Jackson's competitors in the United States include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies. National banks may become more significant competitors in the future for insurers who sell annuities, due to current legislation, court decisions and regulatory actions. Jackson's principal competitors in the United States include AEGON, AIG, Allianz, AXA Financial Inc., Brighthouse, Lincoln Financial Group, MetLife and Prudential Financial.

Jackson does not have a career agency sales force to distribute its annuity products in the United States and, consequently, competes for distributors such as banks, broker-dealers and independent agents.

United Kingdom

M&G Prudential's principal competitors include many of the major retail financial services companies and fund management companies operating in the United Kingdom. These companies include Aviva, Janus Henderson, Jupiter, Legal & General, Schroders and Standard Life Aberdeen. Prudential competes with other providers of financial products to be included on financial advisors' panels of preferred providers.

Sources

Throughout this annual report, Prudential describes the position and ranking of its overall business and individual business units in various industry and geographic markets. The sources for such descriptions come from a variety of conventional sources generally accepted as relevant business indicators by members of the financial services industry. These sources include information available from the Annuity Specs, Asia Asset Management Magazine, Asosiasi Asuransi Jiwa Indonesia, Association of British Insurers, Association of Vietnamese Insurers, Association of Unit Trusts and Investment Funds, Fitch, Hong Kong Federation of Insurers, Hong Kong Office of the Commissioner of Insurance, HSBC Global Research, Insurance Regulatory and Development Authority of India, Insurance Services Malaysia Berhad, Investment Management Association, Life Insurance Marketing and Research Association (LIMRA), Life Insurance Association of Malaysia, Life Insurance Association of Singapore, Life Insurance Association of Taiwan, Lipper Inc., Morningstar, Moody's, Neilsen Net Ratings, Propriety Research, Service Quality Management Group, SNL Financial, Standard & Poor's, Thai Life Assurance Association, The Asset Benchmark Research, The Advantage Group, The Asset, Townsend and Schupp and UBS.

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FINANCIAL REVIEW

IFRS Critical Accounting Policies

Prudential's discussion and analysis of its financial condition and results of operations are based upon Prudential's consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU. EU-endorsed IFRS may differ from IFRS as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. As at 31 December 2017, there were no unendorsed standards effective for the three years ended 31 December 2017 affecting the consolidated financial information of Prudential and there were no differences between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to Prudential. Accordingly, Prudential's financial information for the three years ended 31 December 2017 has been prepared in accordance with IFRS as issued by the IASB. Prudential adopts mandatory requirements of new or altered EU-adopted IFRS standards when required, and may consider earlier adoption where permitted and appropriate in the circumstances.

The preparation of our consolidated financial statements requires Prudential to make estimates and judgements that affect the reported amounts of assets, liabilities, and revenues and expenses, and 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.

Critical accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions. Prudential believes that its critical accounting policies are limited to the policies referenced below which are described further in the notes to the consolidated financial statements.

Critical accounting policies	**Reference to the disclosure notes in the consolidated financial statements**
Classification of insurance and investment contracts	A3.1(a)
Measurement of policyholder liabilities and unallocated surplus of with-profits	A3.1(a)
Measurement and presentation of derivatives and debt securities of US insurance operations	A3.1(b)
Presentation of results before tax	A3.1(b)
Segmental analysis of results and earnings distributable to shareholders	A3.1(b)

The critical accounting policies referenced above are critical for those businesses that relate to the Group's shareholder financed business. In particular this applies for Jackson which is the largest shareholder backed business in the Group. The policies are not critical in respect of the Group's with-profits business. This distinction reflects the basis of recognition of profit and accounting treatment of unallocated surplus of with-profits funds as a liability, as described elsewhere in this Financial Review and our financial statements.

In determining the measurement of the Group's assets and liabilities and in preparing financial statements, more generally, estimates and judgements are required. Our critical accounts estimates and

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assumptions are those set out below, with a reference to the detailed discussion in the notes to our consolidated financial statements.

Critical accounting estimates and assumptions	Reference to the disclosure notes in the consolidated financial statements
Classification of insurance and investment contracts	A3.1(a)
Measurement of policyholder liabilities and unallocated surplus of with-profits	A3.1(a); and C4.2
Deferred acquisition costs for insurance contracts	A3.1(c); and C4.2
Financial investments Valuation	A3.1(c)
Financial investments Determining impairment in relation to financial assets	A3.1(c)
Additional quantitative information on the impairment and realised gains/losses recognised on the available-for-sale debt securities of US insurance operations	B1.2
Additional quantitative information on the movement in the statement of financial position value of the available-for-sale debt securities of US insurance operations and those which are in a gross unrealised loss position.	C3.2(b), C3.2(c)
Intangible assets Carrying value of distribution rights	A3.1(c)

Summary Consolidated Results and Basis of Preparation of Analysis

The following table shows Prudential's consolidated total profit for the years indicated.

	Actual Exchange Rate Year Ended 31 December		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
Total revenue, net of reinsurance	**86,562**	71,842	41,305
Total charges, net of reinsurance and profit (loss) attaching to disposal of businesses	**(82,894)**	(68,812)	(38,222)
Share of profits from joint ventures and associates, net of related tax	**302**	182	238
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)*[*]	**3,970**	3,212	3,321
Tax attributable to policyholders' returns	**(674)**	(937)	(173)
Profit before tax attributable to shareholders	**3,296**	2,275	3,148
Tax charge	**(1,580)**	(1,291)	(742)
Less: tax attributable to policyholders' returns	**674**	937	173
Tax charge attributable to shareholders' returns	**(906)**	(354)	(569)
Profit for the year	**2,390**	1,921	2,579

*

This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is principally because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure (which is determined after

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deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders. See 'Presentation of results before tax' under IFRS Critical Accounting Policies section above for further explanation.

Under IFRS, the pre-tax GAAP measure of profits is profit before policyholder and shareholder taxes. This measure is not relevant for reflecting pre-tax results attributable to shareholders for two reasons. Firstly, this profit measure represents the aggregate of pre-tax results attributable to shareholders and a pre-tax amount attributable to policyholders. Secondly, the amount is determined after charging the transfer to the liability for unallocated surplus, which in turn is determined in part by policyholder taxes borne by the ring-fenced with-profits funds. It is noted that this circular feature is specific to with-profits funds in the UK, and other similarly structured overseas funds, and should be distinguished from other products, which are referred to as 'with-profits', and the general accounting treatment of premium or other policy taxes.

Accordingly, Prudential has chosen to explain its consolidated results principally by reference to profits for the year, reflecting profit after tax. In explaining movements in profit for the year, reference is made to trends in profit before shareholder tax and the shareholder tax charge. The explanations of movement in profit before shareholder tax are shown below by reference to the profit analysis applied for segmental disclosure as shown in note B1 to the consolidated financial statements. This basis is used by management and reported externally to the holders of shares listed on the UK, Hong Kong and Singapore exchanges and to the financial markets in those countries. Separately, in this section, analysis of movements in profits before shareholder tax is provided by nature of revenue and charges.

Explanation of Movements in Profits after Tax and Profits before Shareholder Tax by Reference to the Basis Applied for Segmental Disclosure

(a) Group overview

Profit for the year after tax for 2017 was £2,390 million compared with £1,921 million for 2016. The increase primarily reflects the movement in profit before tax attributable to shareholders, which increased from a profit of £2,275 million in 2016 to a profit of £3,296 million in 2017, which was partially offset by an increase in the tax charge attributable to shareholders from £354 million in 2016 to £906 million in 2017.

The increase in the total profit before tax attributable to shareholders from £2,275 million in 2016 to £3,296 million in 2017 reflects an improvement in operating profit based on longer-term investment returns of £443 million from £4,256 million in 2016 to £4,699 million in 2017 and a favourable change in non-operating items of £578 million, from negative £1,981 million to negative £1,403 million. The decreased charge for non-operating items of £578 million is primarily attributable to the profit attaching to disposal of businesses of £162 million in 2017 compared with the loss of £227 million in 2016 and the favourable change in short-term fluctuations in investment returns of £115 million from negative £1,678 million in 2016 to negative £1,563 million in 2017. The increase of £443 million or 10 per cent in operating profit based on longer-term investments includes a positive exchange translation impact of £173 million. Excluding the effect of currency volatility, on a constant exchange rate basis, the Group operating profit based on longer-term investment returns increased by £270 million or 6 per cent to £4,699 million, reflecting the increases across the Group's Asia, US and M&G Prudential businesses.

The effective rate of tax at the total profit level was 27 per cent in 2017 compared with 16 per cent in 2016. The increased rate principally reflects the inclusion of a £445 million one-off charge on the remeasurement of US deferred tax balances 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. Further details are provided in note B4 of the consolidated financial statements.

Profit for the year after tax for 2016 was £1,921 million compared with £2,579 million for 2015. The decrease primarily reflected the movement in profit before tax attributable to shareholders, which

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decreased from a profit of £3,148 million in 2015 to a profit of £2,275 million in 2016, which was partially offset by a decrease in the tax charge attributable to shareholders from £569 million in 2015 to £354 million in 2016.

The decrease in the total profit before tax attributable to shareholders from £3,148 million in 2015 to £2,275 million in 2016 reflected an improvement in operating profit based on longer-term investment returns of £287 million from £3,969 million in 2015 to £4,256 million in 2016 which was more than offset by an adverse change in non-operating items of £1,160 million, from negative £821 million to negative £1,981 million. The increase of £287 million or 7 per cent in operating profit based on longer-term investments included a positive exchange translation impact of £364 million. Excluding the effect of currency volatility, on a constant exchange rate basis, the Group operating profit based on longer-term investment returns decreased by £77 million or 2 per cent to £4,256 million with increases in Asia and the US offset by the expected decline in the contribution from our UK businesses.

The charge for non-operating items from 2015 to 2016 increased by £1,160 million primarily due to the adverse change in short-term fluctuations in investment returns from negative £755 million in 2015 to negative £1,678 million in 2016 and the inclusion in 2016 of a loss attaching to the held for sale Korea life business of £227 million.

The effective rate of tax at the total profit level was 16 per cent in 2016 compared with 18 per cent in 2015. The decreased rate principally reflected a smaller overall contribution to the total profit from US operations which attracted a higher rate of tax than other operations. Further details are provided in note B4 of the consolidated financial statements.

(b) Summary by business segment and geographical region

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.

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The following table shows Prudential's IFRS consolidated total profit (loss) for the years indicated presented by summary business segment. The accounting policies applied to the segments below are the same as those used in the Group's consolidated accounts.

	Year Ended 31 December		
	2017	**2016***	**2015***
	£m	**£m**	**£m**
Asia	**1,775**	928	972
US	**254**	591	970
UK and Europe	**1,097**	1,184	1,229
Total profit attributable to the segment	**3,126**	2,703	3,171
Unallocated to a segment**	**(736)**	(782)	(592)
Total profit for the year	**2,390**	1,921	2,579

*

The 2016 and 2015 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 consolidated financial statements.

**

Includes central operations (Group and Asia Regional Head Offices and Group borrowings), Prudential Capital and Africa operations.

In order to understand how Prudential's results are derived it is necessary to understand how profit emerges from its business. This varies from region to region, primarily due to differences in the nature of the products and regulatory environments in which Prudential operates. The 2016 and 2015 comparatives have been re-presented from those previously published in the tables below following reassessment of the Group's operating segments as described in note B1.3 of the consolidated financial statements.

Asia

The following table shows the movement in profit arising from Asia operations and its components (insurance and asset management operations) for the years indicated.

	Year Ended 31 December		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
Insurance operations	**1,852**	1,043	1,036
Asset management	**176**	141	115
Profit before shareholder tax	**2,028**	1,184	1,151
Shareholder tax charge	**(253)**	(256)	(179)
Profit after tax	**1,775**	928	972

The increase of £847 million from the profit after tax from £928 million in 2016 to £1,775 million in 2017 primarily reflects an increase in the profit before shareholder tax of £844 million from £1,184 million to £2,028 million. The shareholder tax charge remained consistent at £253 million in 2017 compared with £256 million in 2016.

The increase of £844 million in profit before tax attributable to shareholders includes an increase of £809 million in insurance operations from £1,043 million to £1,852 million and an increase of £35 million in asset management operations from £141 million to £176 million.

For the Asia insurance operations, the assets and liabilities of contracts classified as insurance under IFRS 4 are determined in accordance with methods prescribed by local GAAP and adjusted to comply, where necessary, with grandfathered UK GAAP. Under IFRS 4, subject to the conditions of that standard, the continued application of grandfathered UK GAAP in this respect is permitted. In some

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operations ie Taiwan and India, US GAAP principles are applied. For with-profits business in Hong Kong, Singapore and Malaysia, the basis of profit recognition is bonus driven as described under 'UK and Europe' below.

The increase of £809 million in insurance operations primarily reflects a favourable movement in non-operating items of £513 million from a non-operating loss of £460 million in 2016 to a non-operating profit of £53 million in 2017 and an increase of operating profit based on longer-term investment return of £296 million from a profit of £1,503 million in 2016 to a profit of £1,799 million in 2017. The favourable change of £513 million in non-operating profit was primarily due to a £227 million one-off remeasurement loss in 2016 attaching to the Korea life business, a one-off cumulative exchange gain of £61 million in 2017 recycled from other comprehensive income upon the completion of its disposal and the positive change of £224 million in short-term fluctuations in investment returns from a loss of £225 million to a loss of £1 million in 2017. The increase of £296 million in operating profit based on longer-term investments includes a positive exchange translation impact of £68 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 15 per cent or £228 million on a constant exchange basis reflecting the continued growth of the in-force book of recurring premium business.

The increase of £35 million in asset management operations from £141 million in 2016 to £176 million in 2017 is primarily attributable to an increase in Eastspring Investments' total assets under management as a result of positive net inflows of assets and favourable markets, driving higher fee revenues. The increase of £35 million includes a positive exchange translation impact of £8 million. Excluding the currency volatility, profit from Asia asset management operations was up 18 per cent on a constant exchange rate basis.

The effective shareholder tax rate on profits from Asia operations decreased to 12 per cent in 2017 compared with 22 per cent in 2016, with the movement principally due to the inclusion of a non-tax deductible write down of the Korea life business in 2016 following the agreement to sell the business.

Profit after tax decreased from £972 million in 2015 to £928 million in 2016. The decrease of £44 million was attributable to an increase of £77 million in the shareholder tax charge from £179 million in 2015 to £256 million in 2016, partly offset by a favourable change of £33 million in profit before shareholder tax from £1,151 million in 2015 to £1,184 million in 2016.

The increase of £33 million in profit before tax attributable to shareholders included an increase of £7 million in insurance operations from £1,036 million to £1,043 million and an increase of £26 million in asset management operations from £115 million to £141 million.

The marginal increase of £7 million in insurance operations from £1,036 million in 2015 to a profit of £1,043 million in 2016 primarily reflected an increase of operating profit based on longer-term investment return of £332 million, which was partially offset by an increase in non-operating loss of £325 million. The increase of £332 million in operating profit based on longer-term investments included a positive exchange translation impact of £132 million. Excluding the currency volatility, Asia insurance operations operating profit based on longer-term investment returns was up 15 per cent on a constant exchange basis driven by the increase in the contribution from in-force business and reflecting the recurring premium income bias of our in-force book and the highly diverse nature of our earnings by geography and by product. The change of £325 million from a non-operating loss of £135 million in 2015 to a non-operating loss of £460 million in 2016 was primarily due to a £227 million loss attaching to the held for sale Korea life business in 2016 and the negative change of £88 million in short-term fluctuations in investment returns from £137 million in 2015 to £225 million in 2016. The negative change in short-term fluctuations in investment returns principally reflects the net impact of changes in interest rates and equity markets across the region.

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The increase of £26 million in asset management operations in 2016 compared with 2015 is primarily attributable to the positive effect on average asset under management of favourable market movements and £2.2 billion net inflows in the second half of the year.

The effective shareholder tax rate on profits from Asia operations increased to 22 per cent in 2016 compared with 16 per cent in 2015, with the movement principally due to the non-tax deductible write down of the Korea life business in 2016 following the agreement to sell the business.

United States

The following table shows the movement in profit arising from US operations and its components (insurance and asset management operations) for the years indicated.

	Year Ended 31 December		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
Insurance operations	**590**	529	1,199
Asset management*	**172**	(4)	11
Profit before shareholder tax	**762**	525	1,210
Shareholder tax charge	**(508)**	66	(240)
Profit after tax	**254**	591	970

* Includes the broker-dealer business up to its disposal in 2017.

The decrease of £337 million in profit after tax from £591 million in 2016 to £254 million in 2017 primarily reflects an increase in the shareholder tax charge by £574 million from a credit of £66 million in 2016 to a charge of £508 million in 2017. This was partly offset by an increase of £237 million in profit before shareholder tax from £525 million in 2016 to £762 million in 2017.

The increase in tax charge in 2017 is primarily attributable to the impact of the US tax reform, which generated a one-off charge of £445 million. The effective tax rate on profits from US operations was 67 per cent in 2017 compared with negative 13 per cent in 2016 is primarily driven by this one-off impact. Further details on the US tax reform are provided in note B4 to the consolidated financial statements.

The increase of £237 million in profit before tax attributable to shareholders includes an increase of £61 million in insurance operations from £529 million to £590 million and an increase of £176 million in asset management operations from negative £4 million to positive £172 million in 2017.

The underlying profit on US insurance business (Jackson) predominantly arises from fee income on variable annuity business, spread income from interest sensitive products, such as fixed annuities and institutional products, and insurance margin, net of expenses measured on a US GAAP basis. In addition, the profit (including non-operating items) in any period includes the incidence of realised gains and losses (including impairment) on assets classified as available-for-sale, fair value movements on derivatives and securities classified as fair valued through profit and loss and value movements on product guarantees.

The £61 million increase in insurance operations in 2017 compared with 2016, is primarily due to an increase of £162 million in operating profit based on longer-term investment returns from £2,052 million in 2016 to £2,214 million in 2017, partially offset by an increase in non-operating loss of £101 million. The increase of £162 million in operating profit based on longer-term investment returns includes a positive translation impact of £104 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment return in 2017 on a constant exchange rate basis compared with

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2016 was £58 million or 3 per cent reflecting mainly growth in fee income on higher asset balances, which outweighed the anticipated reduction in spread earnings.

The non-operating loss increased by £101 million from a £1,523 million loss in 2016 to a loss of £1,624 million in 2017. The increase in non-operating loss was mainly driven by an adverse change in short term fluctuations in investment returns of £113 million from a loss of £1,455 million in 2016 to a loss of £1,568 million in 2017. The increase of £101 million in non-operating loss includes a positive translation impact of £78 million. Excluding the currency volatility, the increase in non-operating loss in 2017 on a constant exchange rate basis compared with 2016 was £23 million. The negative movement in short-term fluctuations in investment returns is attributable mainly to the net value movement in the period of the hedge instruments held to manage market exposures and reflects the positive equity market performance in the US during the period.

The £176 million increase in asset management operations in 2017 compared with 2016 is primarily due to the gain of £162 million arising from the disposal of the Group's US broker-dealer network in August 2017. Further details are provided in note D1 to the consolidated financial statements.

Profit after tax decreased from £970 million in 2015 to £591 million in 2016. The decrease of £379 million was attributable to a decrease of £685 million in profit before shareholder tax from £1,210 million in 2015 to £525 million in 2016, partly offset by a favourable change in the shareholder tax charge from a charge of £240 million in 2015 to a credit of 66 million in 2016.

The decrease of £685 million in profit before tax attributable to shareholders from 2015 to 2016 included a decrease of £670 million in insurance operations from £1,199 million to £529 million and a decrease of £15 million in asset management operations from positive £11 million to negative £4 million.

The £670 million decrease in insurance operations in 2016 against 2015, was primarily due to an increase of £1,031 million in non-operating loss to £1,523 million, which was partially offset by an increase in operating profit based on longer-term investment returns from £1,691 million in 2015 to £2,052 million in 2016.The increase of £361 million in operating profit based on longer term investment returns included a positive translation impact of £217 million. Excluding the currency volatility, the increase in operating profit based on longer-term investment return in 2016 on a constant exchange rate basis compared with 2015 was £144 million or 8 per cent primarily as a result of higher fee income from growth in Jackson's separate account asset base and lower amortisation of deferred acquisition costs, which together exceeded the anticipated reduction in spread income. The non-operating loss increased by £1,031 million from a £492 million loss in 2015 to a loss of £1,523 million in 2016. The increase in non-operating loss was mainly driven by an adverse change in short term fluctuations in investment returns of £1,031 million from a loss of £424 million in 2015 to a loss of £1,455 million in 2016. The negative movement in short-term fluctuations in investment returns mainly reflects the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures, as described further in the "Short-term fluctuations in investment returns" section below.

The profit before tax attributable to shareholders from asset management operations decreased by £15 million from a profit of £11 million in 2015 to a loss of £4 million in 2016.

The effective tax rate on profits from US operations was negative 13 per cent in 2016 compared with 20 per cent in 2015 principally driven by a higher negative short-term fluctuations in investment returns, which attracted tax relief at a higher rate than operating profit based on longer-term investment returns in the US operations.

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UK and Europe

The following table shows the movement in profit arising from the UK and Europe operations and its components (insurance and asset management operations) for the years indicated.

	Year Ended 31 December		
	2017	2016*	2015*
	£m	£m	£m
Insurance operations	**858**	1,026	1,075
Asset management*	**506**	433	441
Profit before shareholder tax	**1,364**	1,459	1,516
Shareholder tax charge	**(267)**	(275)	(287)
Profit after tax	**1,097**	1,184	1,229

* The 2016 and 2015 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 consolidated financial statements.

The decrease of £87 million in the profit after tax from £1,184 million in 2016 to £1,097 million in 2017 primarily reflects decrease in the profit before shareholder tax of £95 million from £1,459 million to £1,364 million, partly offset by a marginal decrease of £8 million in the shareholder tax charge from £275 million in 2016 to £267 million in 2017.

The decrease of £95 million in profit before tax attributable to shareholders includes a decrease of £168 million in insurance operations from £1,026 million to £858 million offset by an increase of £73 million in asset management operations from £433 million to £506 million.

The UK and Europe's results comprise an annual profit distribution to shareholders from its UK long-term with-profits fund as well as profits from its annuity and other businesses. For the UK and Europe insurance operations, a significant component of the annual contribution to shareholders' profit comes from its with-profits products. With-profits products are designed to provide policyholders with smoothed investment returns through a mix of regular and final bonuses.

For with-profits business (including non-participating business owned by the PAC with-profits fund), adjustments to liabilities and any related tax effects are recognised in the income statement. However, except for any impact on the annual declaration of bonuses, shareholder profit for with-profits business is unaffected. This is because IFRS basis profits for the with-profits business, which are determined on the same basis as on grandfathered UK GAAP, solely reflect one-ninth of the cost of bonuses declared for the year. Further details on the determination of the bonuses ('regular' and 'final') are provided in note C4.2(c) to the consolidated financial statements.

The results of UK and Europe shareholder-backed annuity business reflect the inclusion of investment return including realised and unrealised gains and losses. The charge for benefits reflects the valuation rate of interest applied to discount future anticipated payments to policyholders. This rate in turn reflects current market yields adjusted for factors including default risks on the assets backing the liabilities. The level of allowance for default risk is a key assumption. Details are included in note B3 to the consolidated financial statements.

The decrease in insurance operations of £168 million to £858 million in 2017 was driven by an adverse change in short-term fluctuations in investment returns on shareholder-backed operations from a profit of £198 million in 2016 to a loss of £20 million in 2017. This was partially offset by an increase in operating profit based on longer-term investment returns of £50 million. The £218 million decrease in short-term fluctuations in investment returns includes unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business that vary differently depending on interest rate and other movements in the profit. Operating profits based on longer-term investments increased by £50 million from £828 million in 2016 to £878 million in 2017, with contributions from the

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core[1] with-profits and in-force annuity business stable at £597 million (2016: £601 million). Operating profit based on longer-term investment returns included general insurance commission of £17 million in 2017 compared with £29 million in 2016.

The increase in asset management operations of £73 million to £506 million in 2017 results from the positive impact on earnings of net fund inflows, supportive markets and higher performance fees and costs rising more slowly than income.

The effective shareholder tax rate on profits from UK and Europe operations increased to 20 per cent in 2017 from 19 per cent in 2016 principally due to a decrease in the proportion of income received which is not subject to tax.

Profit after tax from UK and Europe operations of £1,184 million in 2016 was £45 million lower than the £1,229 million in 2015. This was attributable to a decrease in profit before shareholder tax of £57 million from £1,516 million to £1,459 million combined with a decrease in the shareholder tax charge of £12 million from £287 million to £275 million.

The decrease of £57 million in profit before tax attributable to shareholders included a decrease of £49 million in insurance operations from £1,075 million to £1,026 million and a decrease of £8 million in asset management operations from £441 million to £433 million.

The decrease in insurance operations of £49 million from 2015 to £1,026 million in 2016 was driven by a decrease of £367 million in operating profit based on longer-term investments return, which was partially offset by a favourable movement in the short-term fluctuations in investment returns for shareholder-backed business of £318 million from £120 million loss in 2015 to £198 million gain in 2016. The £367 million, or 31 per cent, decrease in operating profit based on longer-term investment return reflects lower profit from new annuity business, down from £123 million to £41 million in 2016 as we scale down our participation in the annuity market, a lower contribution from management actions to support solvency, down from £400 million to £332 million, and the establishment of a £175 million provision in 2016 for the cost of undertaking a review of past non-advised annuity sales practices and related potential redress. Operating profit based on longer term investment returns included general insurance commissions of £29 million in 2016 compared with £28 million for 2015. The favourable short term fluctuations in investment returns of £198 million reflects gains on bonds backing annuity capital and shareholders' funds following the 70bps fall in 15-year UK gilt yields in 2016.

The decrease in asset management operations of £8 million from £441 million in 2015 to £433 million in 2016 reflects the impact on revenues of lower average assets under management during the year, following the net outflows experienced since the second quarter of 2015.

The effective shareholder tax rate on profits from UK and Europe operations for 2016 remained at 19 per cent consistent with 2015.

Unallocated to a segment

The following table shows the movement in the unallocated to a segment result for the years indicated.

	Year Ended 31 December		
	2017	**2016***	**2015***
	£m	**£m**	**£m**
Loss before shareholder tax	**(858)**	(893)	(729)
Shareholder tax credit	**122**	111	137
Loss after tax	**(736)**	(782)	(592)

* The 2016 and 2015 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 consolidated financial statements.

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Total net charges for activity unallocated to a segment decreased by £49 million from £782 million in 2016 to £736 million in 2017.

The loss before shareholder tax decreased by £35 million from £893 million in 2016 to £858 million in 2017. Other income and expenditure and restructuring costs increased by £189 million from £689 million in 2016 to £878 million in 2017 due to higher interest costs following the debt issued in 2016 and 2017, and higher restructuring costs, as the business invests for the future (including UK and Europe infrastructure). Short-term fluctuations in investment returns showed a favourable movement of £224 million from a loss of £204 million in 2016 to a profit of £20 million in 2017, reflecting the level of unrealised value movements on financial instruments that are dependent on market movements over the relevant reporting period.

The effective tax rate on profits from unallocated to a segment increased to 14 per cent in 2017 from 12 per cent in 2016 principally driven by a decrease in non-tax deductible expenses increasing the tax credit on the losses from unallocated to a segment.

Total net charges for unallocated to a segment activity increased by £190 million from £592 million in 2015 to £782 million in 2016.

The loss before shareholder tax increased by £164 million from £729 million in 2015 to £893 million in 2016. Other income and expenditure and restructuring and Solvency II implementation costs increased by £33 million from £656 million in 2015 to £689 million in 2016. Short-term fluctuations in investment returns increased by £131 million from a loss of £73 million in 2015 to a loss of £204 million in 2016, reflecting unrealised value movements on financial instruments.

The effective tax rate on profits from unallocated to a segment decreased to 12 per cent in 2016 from 19 per cent in 2015 principally due to an increase in non-tax deductible expenses decreasing the tax credit on the unallocated to a segment losses.

Notes

1. Core refers to the underlying profit of the UK and Europe 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.

Basis of Performance Measures

Prudential uses a performance measure of operating profit based on longer-term investment returns. The directors believe that this performance measure better reflects underlying performance. It is the basis used by management for the reasons outlined below. It is also the basis on which analysis of the Group's results has been provided to UK shareholders and the UK financial market for some years under long standing conventions for reporting by proprietary UK life assurers.

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.

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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.

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.

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(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; 2015: £567 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

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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; 2015: £840 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; 2015: 3.5 per cent to 13.0 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.

(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.

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(ii) US variable and fixed index annuity business

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

- 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.

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(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 to the consolidated financial statements.

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; 2015: £1,004 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**	**2015**
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%	5.7% to 6.4%
Other equity-type securities such as investments in limited partnerships and private equity funds	**8.1% to 8.5%**	7.5% to 8.5%	7.7% to 8.4%

(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.

Analysis of operating profit based on longer-term investment returns

The following tables analyse Prudential's operating profit based on longer-term investment returns and Prudential's total profit after tax by business segment.

	2017					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
	£m	£m	£m	£m	£m	£m
Analysis of operating profit						
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	**61**			**61**		**61**
Profit (loss) before tax	**2,028**	**762**	**1,364**	**4,154**	**(858)**	**3,296**
Tax attributable to shareholders						**(906)**
Profit for the year						**2,390**

	2016+ £m (AER)					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
Analysis of operating profit						
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	(227)			(227)		(227)
Profit (loss) before tax	1,184	525	1,459	3,168	(893)	2,275
Tax attributable to shareholders						(354)
Profit for the year						1,921

	2016+,** £m (CER)					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
Analysis of operating profit						
Operating profit (loss) based on longer-term investment return	1,720	2,152	1,253	5,125	(696)	4,429
Short-term fluctuations in investment returns on shareholder-backed business	(237)	(1,529)	206	(1,560)	(204)	(1,764)
Amortisation of acquisition accounting adjustments	(8)	(71)		(79)		(79)
Profit attaching to the held for sale Korea life business	(244)			(244)		(244)
Profit (loss) before tax	1,231	552	1,459	3,242	(900)	2,342
Tax attributable to shareholders						(360)
Profit for the year						1,982

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	2015+ £m (AER)					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
Analysis of operating profit						
Operating profit (loss) based on longer-term investment returns	1,286	1,702	1,637	4,625	(656)	3,969
Short-term fluctuations in investment returns on shareholder-backed business	(137)	(424)	(121)	(682)	(73)	(755)
Amortisation of acquisition accounting adjustments	(8)	(68)		(76)		(76)
Profit attaching to the held for sale Korea life business	56			56		56
Cumulative exchange loss on sold Japan life business	(46)			(46)		(46)
Profit (loss) before tax	1,151	1,210	1,516	3,877	(729)	3,148
Tax attributable to shareholders						(569)
Profit for the year						2,579

	2015+,*** £m (CER)					
	Asia	US	UK and Europe	Total segment	Unallocated to a segment (other operations)	Group total
Analysis of operating profit						
Operating profit (loss) based on longer-term investment return	1,431	1,921	1,637	4,989	(656)	4,333
Short-term fluctuations in investment returns on shareholder-backed business	(154)	(479)	(121)	(754)	(73)	(827)
Amortisation of acquisition accounting adjustments	(9)	(76)		(85)		(85)
Profit attaching to the held for sale Korea life business	62			62		62
Cumulative exchange loss on sold Japan life business	(46)			(46)		(46)
Profit (loss) before tax	1,284	1,366	1,516	4,166	(729)	3,437
Tax attributable to shareholders						(621)
Profit for the year						2,816

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The 2016 and 2015 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 consolidated financial statements

**

For 2016, the CER results were calculated using the 2017 average exchange rates.

***

For 2015, the CER results were calculated using the 2016 average exchange rates.

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Explanation of Performance and Other Financial Measures

	Actual Exchange Rate 2017	Actual Exchange Rate 2016+	Change	Constant Exchange Rate*,+ 2016	Change	Actual Exchange Rate+ 2015	Constant Exchange Rate**,+ 2015
	£m	£m	%	£m	%	£m	£m
Asia							
Insurance operationsnote(ii)	**1,799**	1,503	20%	1,571	15%	1,171	1,303
Asset management	**176**	141	25%	149	18%	115	128
Total Asia	**1,975**	1,644	20%	1,720	15%	1,286	1,431
US							
Jackson (US insurance operations)note(ii)	**2,214**	2,052	8%	2,156	3%	1,691	1,908
Asset management	**10**	(4)	350%	(4)	350%	11	13
Total US	**2,224**	2,048	9%	2,152	3%	1,702	1,921
UK and Europe							
UK and Europe insurance operations:							
Long-term businessnote(ii)	**861**	799	8%	799	8%	1,167	1,167
General insurance commission	**17**	29	(41)%	29	(41)%	28	28
Total UK and Europe insurance operations	**878**	828	6%	828	6%	1,195	1,195
UK and Europe asset management	**500**	425	18%	425	18%	442	442
Total UK and Europe	**1,378**	1,253	10%	1,253	10%	1,637	1,637
Total segment profit	**5,577**	4,945	13%	5,125	9%	4,625	4,989
Other income and expenditure(1)	**(878)**	(689)	27%	(696)	26%	(656)	(656)
Operating profit based on longer-term investment returns before taxnote(i)	**4,699**	4,256	10%	4,429	6%	3,969	4,333
Non-operating items:							
Short-term fluctuations in investment returns on shareholder-backed businessnote(iii)	**(1,563)**	(1,678)	(7)%	(1,764)	(11)%	(755)	(827)
Amortisation of acquisition accounting adjustments	**(63)**	(76)	(17)%	(79)	(20)%	(76)	(85)
Profit (loss) attaching to disposal of businesses	**162**	(227)	n/a	(244)	n/a	56	62
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	**61**		n/a		n/a		

Cumulative exchange loss on the sold Japan life business recycled from other comprehensive income			n/a		n/a	(46)	(46)
Profit before tax attributable to shareholders	**3,296**	2,275	45%	2,342	41%	3,148	3,437
Tax charge attributable to shareholders' returns	**(906)**	(354)	(156)%	(360)	(152)%	(569)	(621)
Profit for the year attributable to shareholders	**2,390**	1,921	24%	1,982	21%	2,579	2,816

*
For 2016, the CER results were calculated using the 2017 average exchange rates.

**
For 2015, the CER results were calculated using the 2016 average exchange rates.

+
The 2016 and 2015 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 consolidated financial statements.

Notes

(i)
The Group provides supplementary analysis of IFRS profit before tax attributable to shareholders so as to distinguish operating profit based on longer-term investment returns from other elements of total profit. Operating profit based on longer-term investment returns is the basis on which management regularly reviews the performance of Prudential's segments as defined by IFRS 8. Further discussion on the determination of operating profit based on longer-term investment returns is provided in B1.3 to the consolidated financial statements and section "Basis of performance measures" above.

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(ii)

The results of the Group's long-term business operations are affected by changes to assumptions, estimates and bases of preparation. Where applicable, these are described in note B3 to the consolidated financial statements.

(iii)

Short-term fluctuations in investment returns on shareholder-backed business comprise:

	Actual exchange rate		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
Asia	**(1)**	(225)	(137)
US	**(1,568)**	(1,455)	(424)
UK and Europe*	**(14)**	206	(121)
Other operations*	**20**	(204)	(73)
Total	**(1,563)**	(1,678)	(755)

*

The 2016 and 2015 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 consolidated financial statements.

Further details on the short-term fluctuations in investment returns are provided below under 'Short-term fluctuations in investment returns' and also in note B1.2 in the consolidated financial statements.

Earnings per share

	Actual exchange rate			Constant exchange rate		Actual exchange rate
	2017	**2016**	**Change**	**2016**	**Change**	**2015**
	pence	**pence**	**%**	**pence**	**%**	**pence**
Basic earnings per share based on operating profit after tax	**145.2**	131.3	11	136.8	6	124.6
Basic earnings per share based on total profit after tax	**93.1**	75.0	24	77.4	20	101.0

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 operating profit based on longer-term investment returns[3] (up 15 per cent). 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. M&G Prudential asset management delivered record external net inflows of £17.3 billion, with overall assets under management[2] 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

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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:

- 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).

- Operating profit based on longer-term investment returns(3) was 6 per cent higher at £4,699 million (10 per cent higher on an actual exchange rate basis). Operating profit from our Asia business grew by 15 per cent to £1,975 million, reflecting continued business momentum. In the US, 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 operating profit was 10 per cent higher than the prior year reflecting 6 per cent growth in the insurance business, with core(4) 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). 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 the report. Total profit after tax includes the impact of the US tax reform, which generated a charge of £445 million from the re-measurement of US net deferred tax balances following the reduction in the corporate income tax rate. Reflecting this post-tax profit, Group IFRS shareholders' equity was 10 per cent higher at £16.1 billion.

- Group shareholders' Solvency II capital surplus(5) was estimated at £13.3 billion at 31 December 2017, equivalent to a cover ratio of 202 per cent(6) (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.

Operating profit based on longer-term investment returns

2017 total 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.

2017 compared with 2016 (CER)

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). 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(7) reaching £11.6 billion (2016: £9.5 billion on a constant exchange rate basis). Insurance margin was up 21 per cent, reflecting

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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 operating profit based on longer-term investment return 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 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(3) higher at £1,378 million. Life insurance operating profit increased by 8 per cent to £861 million (2016: £799 million). Within this total, the contribution from our core(4) 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 operating profit from the sale of annuities of £9 million (2016: £41 million) and a number of other items discussed below. Asset management 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.

2016 (AER) compared with 2015 (CER based on 2016 exchange rate)

Asia total operating profit of £1,644 million was 15 per cent higher than the previous year (28 per cent on an AER basis). Operating profit from life insurance operations in Asia was 15 per cent higher at £1,503 million (up 28 per cent on an actual exchange rate basis), reflecting our ability to translate top line growth into shareholder value. The performance is underpinned by the recurring premium income nature of our in-force book and the highly diverse nature of our earnings by geography and by source. Insurance income was up 24 per cent (38 per cent on an actual exchange rate basis), reflecting our continued focus on health and protection business. At a country level, we have seen double-digit growth in six markets, led by Hong Kong (up 40 per cent, and 59 per cent on an AER basis), China (up 83 per cent, and 100 per cent on an AER basis) and growth of 15 per cent or more (20 per cent or more on an AER basis) from Malaysia, Thailand, Vietnam and Taiwan. These markets have more than compensated for the impact of lower earnings growth in Indonesia and Singapore, following deliberate actions taken to improve the quality of new business flows. Eastspring's operating profit based on longer-term

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investment returns increased by 10 per cent (up 23 per cent on an actual exchange rate basis) to £141 million, reflecting the positive effect on average assets under management of favourable market movements and £2.2 billion net inflows in the second half of the year. Although a shift in the mix of assets away from higher-margin equity funds has moderated the overall revenue margin, scale efficiencies have resulted in an improvement in the cost-income ratio to 56 per cent (2015: 58 per cent).

US total operating profit of £2,048 million was 7 per cent higher than the previous year (20 per cent increase on an AER basis). US life operating profit was 8 per cent higher at £2,052 million (up 21 per cent on an actual exchange rate basis), reflecting the resilient performance of Jackson's franchise in an environment of market volatility and sector wide disruption following the announcement of the Department of Labor's fiduciary duty rule in April 2016. Average separate account balances increased by 5 per cent (17 per cent on an AER basis), resulting in a 3 per cent rise in fee income (16 per cent on an AER basis), while the result also benefited from scale efficiencies. As expected, lower yields in the year have impacted spread income, which decreased by 5 per cent (increased by 8 per cent on an AER basis).

UK and Europe total operating profit of £1,253 million was 23 per cent lower than the previous year. UK and Europe life operating profit declined by 32 per cent to £799 million (2015: £1,167 million). Within this total, the contribution from our core in-force with-profits and annuity business was £601 million (2015: £644 million), including an unchanged transfer to shareholders from the with-profits funds of £269 million. The balance of the result reflects the contribution from other activities which are either non-core or are not expected to recur to the same extent going forward. Profit from new annuity business reduced from £123 million in 2015 to £41 million, as we scaled down our participation in the annuity market. In response to the volatile investment market environment during 2016, we took a number of asset and liability actions to improve the solvency position of our UK life operations and further mitigate market risk, generating combined profits of £332 million (2015: £400 million). Of this amount, £197 million related to profit from longevity reinsurance transactions (2015: £231 million) and £135 million (2015: £169 million) from the effect of repositioning the fixed income asset portfolio. In response to the findings of the FCA's thematic review of non-advised annuity sales practices, the UK business will review internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK life 2016 result includes a provision of £175 million for the cost of this review and related potential redress. The provision does not include potential insurance recoveries of up to £175 million. Asset management operating profit based on longer-term investment returns declined by 4 per cent to £425 million (2015: £442 million), reflecting the impact on revenues of lower average assets under management during the year, following the net outflows experienced since the second quarter of 2015. As these net outflows were primarily from the higher margin retail business, they had a disproportionately adverse impact on earnings. The same dynamics have seen the cost-income ratio move up 2 percentage points to 59 per cent.

Life insurance profit drivers

The increase in our 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 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.

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Shareholder-backed policyholder liabilities and net liability flows[8]

	2017 Actual exchange rate				2016 Actual exchange rate			
	At 1 January	Net liability flows[9]	Market and other movements[31]	At December	At 1 January	Net liability flows[9]	Market and other movements[31]	At December
	£m	£m	£m	£m	£m	£m	£m	£m
Asia	**32,851**	**2,301**	**2,250**	**37,402**	25,032	2,086	5,733	32,851
US	**177,626**	**3,137**	**(39)**	**180,724**	138,913	5,198	33,515	177,626
UK and Europe	**56,158**	**(2,721)**	**2,930**	**56,367**	52,824	(3,646)	6,980	56,158
Total Group	**266,635**	**2,717**	**5,141**	**274,493**	216,769	3,638	46,228	266,635

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.

Policyholder liabilities and net liability flows in with-profits business[8,10]

	2017 Actual exchange rate				2016 Actual exchange rate			
	At 1 January	Net liability flows[9]	Market and other movements[31]	At December	At 1 January	Net liability flows[9]	Market and other movements[31]	At December
	£m	£m	£m	£m	£m	£m	£m	£m
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
Total Group	**143,079**	**8,031**	**10,026**	**161,136**	121,003	4,815	17,261	143,079

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.

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Analysis of long-term insurance business pre-tax operating profit based on longer-term investment returns by driver

	Actual exchange rate						Constant exchange rate			Actual exchange rate		
	2017			**2016**			**2016**			**2015**		
	Operating profit	**Average liability**	**Margin bps**	**Operating profit**	**Average liability**	**Margin bps**	**Operating profit**	**Average liability**	**Margin bps**	**Operating profit**	**Average liability**	**Margin bps**
	£m	**£m**		**£m**	**£m**		**£m**	**£m**		**£m**	**£m**	
Spread income	**1,108**	**88,908**	**125**	1,171	83,054	141	1,215	85,266	142	1,153	72,900	158
Fee income	**2,603**	**166,839**	**156**	2,175	139,451	156	2,280	145,826	156	1,888	123,232	153
With-profits	**347**	**136,474**	**25**	317	118,334	27	319	119,170	27	314	106,749	29
Insurance margin	**2,271**			1,991			2,083			1,671		
Margin on revenues	**2,286**			2,126			2,211			1,822		
Expenses:												
Acquisition costs	**(2,433)**	**6,958**	**(35)%**	(2,251)	6,320	(36)%	(2,353)	6,574	(36)%	(2,100)	5,466	(38)%
Administration expenses*	**(2,297)**	**261,114**	**(88)**	(1,943)	229,477	(85)	(2,025)	238,392	(85)	(1,656)	203,664	(81)
DAC adjustments	**505**			390			411			313		
Expected return on shareholder assets	**229**			221			227			224		
	4,619			4,197			4,368			3,629		
Longevity reinsurance and other management actions to improve solvency	**276**			332			332			400		
Changes in longevity assumption basis	**204**											
Provision for review of past annuity sales	**(225)**			(175)			(175)					
Operating profit based on longer-term investment returns	**4,874**			4,354			4,525			4,029		

* The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. The acquisition costs include only those relating to shareholders backed business.

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.Refer to section I(a) within the "Additional unaudited financial information" for further information on operating profit based on longer-term investment returns by driver.

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.

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Asset management external funds under management[11,12]

	2017 Actual exchange rate				2016 Actual exchange rate			
	At 1 January	Net flows	Market and other movements	At 31 December	At 1 January	Net flows	Market and other movements	At 31 December
	£m	£m	£m	£m	£m	£m	£m	£m
UK and Europe	**136,763**	**17,337**	**9,755**	**163,855**	126,405	(8,090)	18,448	136,763
Asia13	**38,042**	**3,141**	**5,385**	**46,568**	30,281	1,835	5,926	38,042
Total asset management	**174,805**	**20,478**	**15,140**	**210,423**	156,686	(6,255)	24,374	174,805
Total asset management (including MMF)	**182,519**	**21,973**	**15,248**	**219,740**	162,692	(5,852)	25,679	182,519

2017 compared with 2016 (CER)

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, 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.

2016 (AER) vs 2015 (CER based on 2016 exchange rates)

M&G Prudential asset management business's external assets under management at 31 December 2016 were 8 per cent higher than a year ago at £136.8 billion, benefitting from positive investment market movements, particularly in the second half of the year and a return to positive net flows for retail business in the fourth quarter of £942 million. Including the assets managed for internal life operations, M&G Prudential asset management business's total assets under management rose to £264.9 billion (2015: £246.1 billion).

Eastspring investment's external assets under management at 31 December 2016 increased to £38.0 billion (31 December 2015: £30.3 billion). Including money market funds and the assets managed for internal life operations, Eastspring Investment's total assets under management rose to a record £117.9 billion (2015: £89.1 billion).

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Other income and expenditure and restructuring costs[1]

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).

Non-operating items[1]

2017 compared with 2016 (CER)

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.

2016 (AER) compared with 2015 (CER based on 2016 exchange rates)

The result of the held for sale Korea business, a loss of £227 million, comprises both the write down of the IFRS net assets to sales proceeds (net of costs) and the profits for the year. The comparative profits for the year have been similarly reclassified as non-operating for consistency of presentation. Other non-operating items of negative £76 million mainly represent the amortisation of acquisition accounting adjustments arising principally on the acquisition of the REALIC business in 2012 (2015: negative £85 million on a constant exchange rate basis). Additionally, 2015 non-operating items included a loss of £46 million from the recycling of exchange losses on the sale of the Japan business.

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

Short-term fluctuations in investment returns on shareholder-backed business

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.

2017

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

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manage market exposures and reflect the positive equity market performance in the US during the period.

2016

In 2016, the total short-term fluctuations in investment returns were negative £1,678 million and comprised negative £225 million for Asia, negative £1,455 million in the US, positive £206 million in the UK and negative £204 million in other operations.

The Asia negative £225 million short-term fluctuations principally reflected the net impact of changes in interest rates and equity markets across the region.

US negative short-term fluctuations of £1,455 million in the year mainly reflect the effect of the increase in equity markets on net value movements on the guarantees and associated derivatives with the S&P 500 index closing at 10 per cent higher than at the start of the year. While the resulting negative mark-to-market movements on these hedging instruments are recorded in 2016, the related increases in fee income that arise from the higher asset values managed, will be recognised and reported in future years.

The UK non-operating profit of positive £206 million mainly reflects gains on bonds backing annuity capital and shareholders' funds following the 70bps fall in 15-year UK gilt yields in 2016.

The negative short-term fluctuations in investment returns for other operations of negative £204 million (2015: negative £73 million) include unrealised value movements on financial instruments.

2015

In 2015, the total short-term fluctuations in investment returns were negative £755 million, comprising negative £137 million for Asia, negative £424 million in the US, negative £121 million in the UK and Europe and negative £73 million in other operations.

In Asia, the negative short-term fluctuations of £137 million reflected net unrealised losses on fixed income securities, primarily due to rises in bond yields.

Short-term fluctuations in the US mainly reflect the net value movement on the guarantees offered by Jackson and the associated derivatives held to manage market exposures. Under IFRS accounting the movement in the valuation of derivatives, which are fair valued, is asymmetrical to the movement in the guarantee liabilities, which are not fair valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and therefore accepts variability in the accounting results. The negative short-term fluctuations of £424 million in 2015 were primarily attributable to the net value movement in the year of the hedge instruments held to manage market exposures.

Negative short-term fluctuations of £121 million in the UK reflected net unrealised losses on fixed income assets supporting the excess capital held within the shareholder-backed annuity business following a rise in interest rates during the year.

IFRS effective tax rates

In 2017, the effective tax rate on operating profit based on longer-term investment returns was 21 per cent, which is unchanged from 2016 (21 per cent, 2015: 20 per cent).

The 2017 effective tax rate on the total IFRS profit was 27 per cent (2016: 16 per cent, 2015: 18 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

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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 and lower than the equivalent amount of £3,004 million in 2015.

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.

Group and holding company cash flows

Prudential's consolidated cash flow includes the movement in cash included within both policyholders' and shareholders' funds, such as cash in the with-profits fund. Prudential therefore believes that it is more relevant to consider individual components of the movement in holding company cash flow which relate solely to the shareholders.

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.

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[14] 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

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currency movements, led to holding company cash decreasing from £2,626 million to £2,264 million over 2017.

Capital position, financing and liquidity

Capital position

Analysis of movement in Group shareholder Solvency II surplus[15]

	2017	2016
	£bn	£bn
Solvency II surplus at 1 January	**12.5**	9.7
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)
Estimated Solvency II surplus at 31 December	**13.3**	12.5

* 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[5,6], 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 asset 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[16] had an estimated Solvency II shareholder surplus[17] of £6.1 billion (equivalent to a cover ratio of 178 per cent) and a with-profits surplus[18] 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[19]. During 2017, default losses were minimal and reported impairments across the UK and US portfolios were £2 million (2016: £35 million).

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Financing and liquidity

Shareholders' net core structural borrowings and ratings

	31 December 2017 £m	2016 £m
Total borrowings of shareholder-financed operations	**6,280**	6,798
Less: Holding company cash and short-term investments	**(2,264)**	(2,626)
Net core structural borrowings of shareholder-financed operations	**4,016**	4,172
Gearing ratio*	**20%**	22%

* 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.

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.

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Movement in Shareholders' Funds

The following table sets forth a summary of the movement in Prudential's IFRS shareholders' funds for 2017 and 2016:

Shareholders' funds

	2017	2016
	£m	£m
Profit after tax for the year[20]	**2,389**	1,921
Exchange movements, net of related tax	**(409)**	1,161
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[21]	**486**	31
Dividends	**(1,159)**	(1,267)
Other	**175**	(135)
Net increase in shareholders' funds	**1,421**	1,711
Shareholders' funds at 1 January	**14,666**	12,955
Shareholders' funds at 31 December	**16,087**	14,666
Shareholders' value per share[22]	**622p**	568p
Return on shareholders' funds[23]	**25%**	26%

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 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.

Corporate transactions

Intention to demerge the Group's UK businesses and sale of £12.0 billion[24] 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[24] of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion[24] 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.

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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[4] 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 comprise its life business, Prudential 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.

Pro-forma estimated Group shareholder Solvency II capital position

	Own Funds	Solvency Capital Requirement	Surplus	Ratio
	£bn	£bn	£bn	%
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	Solvency Capital Requirement	Surplus	Ratio
	£bn	£bn	£bn	%
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

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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.

2017

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).

2016

Entrance into Zambia

In June 2016 we completed the acquisition of Professional Life Assurance of Zambia, increasing Prudential's insurance business footprint in Africa to four markets. Across Ghana, Kenya, Uganda and now Zambia we are gradually laying the foundations for what we hope will become a meaningful component of the Group in the years to come. Our current focus in these businesses is on growing our distribution; at 31 December we had 1,750 agents and were active in 181 branches of our four local bank partners (three exclusive) across these businesses.

2015

In June 2015, we completed the acquisition of Ugandan company Goldstar Life Assurance and signed a long-term co-operation agreement with Crane Bank of Uganda.

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.

Notes

1. Refer to note B1.1 in consolidated financial statements for the breakdown of other income and expenditure and other non-operating items.
2. 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.
3. The 2016 and 2015 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 consolidated financial statements.
4. 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 IFRS financial information.
5. 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.
6. Before allowing for second interim ordinary dividend.
7. 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.
8. Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures and associates in Asia.
9. Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
10. Includes Unallocated surplus of with-profits business.
11. Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
12. 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(a) of the Additional unaudited financial information.
13. 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).

14. Based on the 2017 operating segments.

15. The methodology and assumptions used in calculating the Solvency II capital results are set out in note II(e) of the Additional unaudited financial information.

16. 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.

17. 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.

18. 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.

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

20. Excluding profit for the year attributable to non-controlling interests.

21. Net of related charges to deferred acquisition costs and tax.

22. Closing shareholders' funds divided by issued shares, as set out in note II(d) of the Additional unaudited financial information.

23. Operating profit after tax and non-controlling interests as percentage of opening shareholders' funds, as set out in note II(b) of the Additional unaudited financial information.

24. Relates to £12.0 billion of IFRS shareholder annuity liabilities, valued as at 31 December 2017.

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Explanation of Movements in Profits before Shareholder Tax by Nature of Revenue and Charges

The following table shows Prudential's consolidated total revenue and consolidated total charges for the years presented:

	Actual Exchange Rate		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
Gross premiums earned[a]	**44,005**	38,981	36,663
Outward reinsurance premiums	**(2,062)**	(2,020)	(1,157)
Earned premiums, net of reinsurance	**41,943**	36,961	35,506
Investment return[b]	**42,189**	32,511	3,304
Other income	**2,430**	2,370	2,495
Total revenue, net of reinsurance	**86,562**	71,842	41,305
Benefits and claims	**(71,854)**	(60,948)	(30,547)
Outward reinsurers' share of benefit and claims	**2,193**	2,412	1,389
Movement in unallocated surplus of with-profits funds	**(2,871)**	(830)	(498)
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance[c]	**(72,532)**	(59,366)	(29,656)
Acquisition costs and other expenditure[d]	**(10,165)**	(8,848)	(8,208)
Finance costs: interest on core structural borrowings of shareholder-financed operations	**(425)**	(360)	(312)
Disposal of Korea life business:			
Cumulative exchange gain recycled from other comprehensive income	**61**		
Remeasurement adjustments	**5**	(238)	
Gain on disposal of other businesses	**162**		
Disposal of Japan life business cumulative exchange loss recycled from other comprehensive income			(46)
Total charges, net of reinsurance and gain (loss) on disposal of businesses	**(82,894)**	(68,812)	(38,222)
Share of profits from joint ventures and associates, net of related tax	**302**	182	238
Profit before tax *(being tax attributable to shareholders' and policyholders' returns)**	**3,970**	3,212	3,321
Less tax charge attributable to policyholders' returns	**(674)**	(937)	(173)
Profit before tax attributable to shareholders	**3,296**	2,275	3,148
Total tax charge attributable to policyholders and shareholders	**(1,580)**	(1,291)	(742)
Adjustment to remove tax charge attributable to policyholders' returns	**674**	937	173
Tax charge attributable to shareholders' returns	**(906)**	(354)	(569)
Profit for the year	**2,390**	1,921	2,579

*

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.

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(a) Gross premiums earned

	Year ended 31 December		
	2017	**2016**	**2015**
	£m	**£m**	**£m**
Asia	**15,688**	14,006	10,814
US	**15,164**	14,685	16,887
UK and Europe	**13,126**	10,290	8,962
Unallocated to a segment	**27**		
Total	**44,005**	38,981	36,663

Gross premiums earned for insurance operations totalled £44,005 million in 2017, up 13 per cent from £38,981 million in 2016. The increase of £5,024 million was primarily driven by growth of £2,836 million in the UK and Europe operations , £1,682 million in the Asia operations and £479 million in the US operations.

Gross premiums earned for insurance operations totalled £38,981 million in 2016, up 6 per cent from £36,663 million in 2015. The increase of £2,318 million was driven by growth of £1,328 million in the UK and Europe operations and £3,192 million in the Asia operations, which was partially offset by a decline of £2,202 million in the US operations.

Asia

Gross premiums earned reflect the aggregate of single and recurrent premiums of new business sold in the year and premiums on annual business sold in previous years.

Gross premiums for Asia increased by 12 per cent from £14,006 million in 2016 to £15,688 million in 2017 on an actual exchange rate basis. Excluding the impact of exchange translation, gross earned premiums in Asia increased by 7 per cent from 2016 to 2017, from £14,691 million on a constant exchange rate in 2016 to £15,688 million in 2017. The growth in earned premiums reflects the continued growth of our in-force recurring premium business.

Our focus on quality is undiminished with regular premium contracts accounting for majority of the sales and driven by a health and protection focus. This focus provides a high level of recurring income and an earnings profile that is significantly less correlated to investment markets.

In Hong Kong, in 2017 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 resulted in a reduction in Hong Kong sales of new business but its overall gross premiums earned have increased year on year from the increase in in-force recurring premium reflecting the higher level of new business sales in recent years.

Outside Hong-Kong, sales were up. In China, there were higher sales and a significant uplift in regular premium health and protection business from our increased scale and productivity in the agency channel, as well as a positive contribution from our bancassurance partners. In Singapore, sales grew, reflecting growth across both agency and bancassurance channels. Indonesia reflected a more stable sales performance than in recent years.

Gross premiums for Asia increased by 30 per cent from £10,814 million in 2015 to £14,006 million in 2016. Excluding the impact of exchange translation, gross premiums in Asia increased by 16 per cent from 2015 to 2016, from £12,067 million on a constant exchange rate in 2015 to £14,006 million in 2016. The growth in the premiums reflected increases for both the new business sold in the year and premiums on annual business sold in previous years. Sales of new business in the region grew which

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reflected strong sales progression in the agency channel, as we continued to drive improvements in productivity and invest in recruitment initiatives to underpin future sales prospects. The fourth quarter of 2016 saw an acceleration in the positive trends observed earlier in 2016, with 8 of our markets in the region seeing considerable growth.

United States

Gross premiums increased by 3 per cent from £14,685 million in 2016 to £15,164 million in 2017 on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US decreased by 2 per cent from £15,434 million on a constant exchange rate in 2016 to £15,164 million in 2017. 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 marginally, 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. The marginal increase in the variable annuity sales was more than offset by decreases in the sales of fixed annuity and fixed index annuity.

Gross premiums decreased by 13 per cent from £16,887 million in 2015 to £14,685 million in 2016 on an actual exchange rate basis. Excluding the impact of exchange translation, gross premiums in the US decreased by 23 per cent from £19,053 million on a constant exchange rate in 2015 to £14,685 million in 2016. In the US, uncertainty following the announcement of the Department of Labor's fiduciary duty rule on the distribution of retirement market products has contributed to a marked decline of 22 per cent in industry sales of variable annuities. Jackson's sales from all variable annuity products were also lower as a result. Notwithstanding this reduction in sales, net inflows into Jackson's separate account asset balances, which drive fee-based earnings on variable annuity business, remained positive at £4.4 billion.

UK and Europe

Gross premiums for UK and Europe life business increased by 28 per cent from £10,290 million in 2016 to £13,126 million in 2017, mainly due to our on-going strategy of extending customer access to PruFund's with-profits investment option via additional product wrappers which continues to drive growth. We have seen notable success with the build out of PruFund through individual pensions, income drawdown and ISAs. 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.

Gross premiums for UK and Europe increased by 15 per cent from £8,962 million in 2015 to £10,290 million in 2016, mainly due to our strategy of extending customer access to PruFund's with-profits investment option via additional product wrappers continues to drive growth in sales. In the low interest rate environment, consumers were attracted to PruFund's smoothed multi-asset fund returns and the financial security attaching to its strong capitalisation. Notable success was seen with the build out of PruFund through individual pensions, income drawdown and ISAs. Reflecting this strong performance, total PruFund assets under management of £24.7 billion as at 31 December 2016 were 50 per cent higher than at the start of the year. Despite this increase, sales from new annuity business reduced from £123 million in 2015 to £41 million in 2016, as we scaled down our participation in the annuity market.

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(b) Investment return

	Year ended 31 December		
	2017	**2016***	**2015***
	£m	**£m**	**£m**
Asia	**8,995**	2,917	(296)
US	**18,533**	7,612	(789)
UK and Europe	**14,584**	22,095	4,407
Unallocated to a segment and intra-segment elimination	**77**	(113)	(18)
Total	**42,189**	32,511	3,304

* The 2016 and 2015 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 consolidated financial statements.

Investment return principally comprises interest income, dividends, investment appreciation/depreciation (realised and unrealised gains and losses) on investments designated as fair value through profit and loss and realised gains and losses, including impairment losses, on securities designated as amortised cost and available-for-sale. Movements in unrealised appreciation/depreciation of Jackson's debt securities designated as amortised cost and available-for-sale are not reflected in investment return but are recorded in other comprehensive income.

Allocation of investment return between policyholders and shareholders

Investment return is attributable to policyholders and shareholders. A key feature of the accounting policies under IFRS is that the investment return included in the income statement relates to all investment assets of the Group, irrespective of whether the return is attributable to shareholders, or to policyholders or the unallocated surplus of with-profits funds, the latter two of which have no direct

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impact on shareholders' profit. The table below provides a breakdown of the investment return for each regional operation attributable to each type of business.

	2017	2016*	2015*
	£m	**£m**	**£m**
Asia			
Policyholder returns			
Assets backing unit-linked liabilities	**2,720**	822	(626)
With-profits business	**4,689**	1,454	(75)
	7,409	2,276	(701)
Shareholder returns	**1,586**	641	405
Total	**8,995**	2,917	(296)
US			
Policyholder returns Assets held to back separate account (unit-linked) liabilities	**19,198**	7,917	(2,033)
Shareholder returns	**(665)**	(305)	1,244
Total	**18,533**	7,612	(789)