

PRUDENTIAL PLC  
Form 6-K  
March 14, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of March, 2018

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,  
LONDON, EC4R 0HH, ENGLAND  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports  
under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information  
contained in this Form is also thereby furnishing the information to the  
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant  
in connection with Rule 12g3-2(b): 82-

IFRS Disclosure and Additional Unaudited Financial Information  
Prudential plc 2017 results

International Financial Reporting Standards (IFRS) basis results

Consolidated income statement

Year ended 31 December

Note 2017 £m 2016 £m

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|   |      |          |          |
|---|------|----------|----------|
| Gross premiums earned   |      | 44,005   | 38,981   |
| Outward reinsurance premiums  |      | (2,062)  | (2,020)  |
| Earned premiums, net of reinsurance   |      | 41,943   | 36,961   |
| Investment return   |      | 42,189   | 32,511   |
| Other income  |      | 2,430    | 2,370    |
| Total revenue, net of reinsurance   |      | 86,562   | 71,842   |
| Benefits and claims   |      | (71,854) | (60,948) |
| Outward reinsurers' share of benefit and claims   |      | 2,193    | 2,412    |
| Movement in unallocated surplus of with-profits funds   |      | (2,871)  | (830)    |
| Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance |      | (72,532) | (59,366) |
| Acquisition costs and other expenditure   | B2   | (10,165) | (8,848)  |
| Finance costs: interest on core structural borrowings of shareholder-financed operations          |      | (425)    | (360)    |
| Disposal of Korea life business:  | D1   |          |          |
| Cumulative exchange gain recycled from other comprehensive income                                 |      | 61       | -        |
| Remeasurement adjustments   |      | 5        | (238)    |
| Gain on disposal of other businesses  | D1   | 162      | -        |
| Total charges, net of reinsurance and gain (loss) on disposal of businesses                       |      | (82,894) | (68,812) |
| Share of profits from joint ventures and associates, net of related tax                           |      | 302      | 182      |
| Profit before tax (being tax attributable to shareholders' and policyholders' returns)*           |      | 3,970    | 3,212    |
| Less tax charge attributable to policyholders' returns  |      | (674)    | (937)    |
| Profit before tax attributable to shareholders  | B1.1 | 3,296    | 2,275    |
| Total tax charge attributable to policyholders and shareholders                                   | B4   | (1,580)  | (1,291)  |
| Adjustment to remove tax charge attributable to policyholders' returns                            |      | 674      | 937      |
| Tax charge attributable to shareholders' returns  | B4   | (906)    | (354)    |
| Profit for the year   |      | 2,390    | 1,921    |
| Attributable to:  |      |          |          |
| Equity holders of the Company   |      | 2,389    | 1,921    |
| Non-controlling interests   |      | 1        | -        |
| Profit for the year   |      | 2,390    | 1,921    |

|  |       |       |
|--|-------|-------|
| Earnings per share (in pence)                                      | 2017  | 2016  |
| Based on profit attributable to the equity holders of the Company: |       |       |
| Basic  | 93.1p | 75.0p |
| Diluted  | 93.0p | 75.0p |

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|   |        |        |
|---|--------|--------|
| Dividends per share (in pence)                  | 2017   | 2016   |
| Dividends relating to reporting year:           | B6     |        |
| First interim ordinary dividend                 | 14.50p | 12.93p |
| Second interim ordinary dividend                | 32.50p | 30.57p |
| Total   | 47.00p | 43.50p |
| Dividends paid in reporting year:               | B6     |        |
| Current year first interim dividend             | 14.50p | 12.93p |
| Second interim ordinary dividend for prior year | 30.57p | 26.47p |
| Special dividend                                | -      | 10.00p |
| Total   | 45.07p | 49.40p |

\*

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.

#### International Financial Reporting Standards (IFRS) Basis Results

##### Consolidated statement of comprehensive income

| Year ended 31 December  | Note    | 2017 £m | 2016 £m |
|---|---------|---------|---------|
| Profit for the year   |         | 2,390   | 1,921   |
| Other comprehensive income:   |         |         |         |
| Items that may be reclassified subsequently to profit or loss   |         |         |         |
| Exchange movements on foreign operations and net investment hedges:   |         |         |         |
| Exchange movements arising during the year  |         | (404)   | 1,148   |
| Cumulative exchange gain of sold Korea life business recycled through profit or loss                          |         | (61)    | -       |
| Related tax   |         | (5)     | 13      |
|   |         | (470)   | 1,161   |
| Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale: |         |         |         |
| Net unrealised holding gains arising during the year  |         | 591     | 241     |
| Net gains (losses) included in the income statement on disposal and impairment                                |         | 26      | (269)   |
| Total   | C3.2(c) | 617     | (28)    |
| Related change in amortisation of deferred acquisition costs  | C5 (b)  | (76)    | 76      |
| Related tax   | C8      | (55)    | (17)    |
|   |         | 486     | 31      |
| Total   |         | 16      | 1,192   |

Items that will not be reclassified to profit or loss

Shareholders' share of actuarial gains and losses on defined benefit pension schemes:

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|   |       |       |
|---|-------|-------|
| Gross   | 104   | (107) |
| Related tax   | (15)  | 14    |
|   | 89    | (93)  |
| Other comprehensive income for the year, net of related tax | 105   | 1,099 |
| Total comprehensive income for the year                     | 2,495 | 3,020 |
| Attributable to:  |       |       |
| Equity holders of the Company                               | 2,494 | 3,020 |
| Non-controlling interests                                   | 1     | -     |
| Total comprehensive income for the year                     | 2,495 | 3,020 |

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

|   | Year ended 31 December 2017 £m |                           |                           |                   |                     |  |                      |                           |              |
|---|--------------------------------|---------------------------|---------------------------|-------------------|---------------------|--|----------------------|---------------------------|--------------|
|   | Note                           | Share capital<br>note C10 | Share premium<br>note C10 | Retained earnings | Translation reserve | Available-for-sale securities reserves | Shareholders' equity | Non-controlling interests | Total equity |
| Reserves  |                                |                           |                           |                   |                     |  |                      |                           |              |
| Profit for the year   | -                              | -                         | 2,389                     | -                 | -                   | -                                      | 2,389                | 1                         | 2,390        |
| Other comprehensive income:   |                                |                           |                           |                   |                     |  |                      |                           |              |
| Exchange movements on foreign operations and net investment hedges, net of related tax                                  | -                              | -                         | -                         | (470)             | -                   | -                                      | (470)                | -                         | (470)        |
| Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax | -                              | -                         | -                         | -                 | -                   | 486                                    | 486                  | -                         | 486          |
| Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax                        | -                              | -                         | 89                        | -                 | -                   | -                                      | 89                   | -                         | 89           |
| Total other comprehensive income  | -                              | -                         | 89                        | (470)             | -                   | 486                                    | 105                  | -                         | 105          |

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|  |     |       |         |       |     |         |   |         |
|--|-----|-------|---------|-------|-----|---------|---|---------|
| (loss)   |     |       |         |       |     |         |   |         |
| Total comprehensive income for the year  | -   | -     | 2,478   | (470) | 486 | 2,494   | 1 | 2,495   |
| Dividends  | B6  | -     | (1,159) | -     | -   | (1,159) | - | (1,159) |
| Reserve movements in respect of share-based payments                               | -   | -     | 89      | -     | -   | 89      | - | 89      |
| Change in non-controlling interests*   |     |       |         |       |     | -       | 5 | 5       |
| Share capital and share premium  |     |       |         |       |     |         |   |         |
| New share capital subscribed   | C10 | -     | 21      | -     | -   | 21      | - | 21      |
| Treasury shares  |     |       |         |       |     |         |   |         |
| Movement in own shares in respect of share-based payment plans                     | -   | -     | (15)    | -     | -   | (15)    | - | (15)    |
| Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS |     |       | (9)     |       | -   | (9)     | - | (9)     |
| Net increase (decrease) in equity  | -   | 21    | 1,384   | (470) | 486 | 1,421   | 6 | 1,427   |
| At beginning of year   | 129 | 1,927 | 10,942  | 1,310 | 358 | 14,666  | 1 | 14,667  |
| At end of year   | 129 | 1,948 | 12,326  | 840   | 844 | 16,087  | 7 | 16,094  |

\*Arising from the acquisition of the majority stake in Zenith Life of Nigeria in 2017.

International Financial Reporting Standards (IFRS) Basis Results

Consolidated statement of changes in equity

|  | Year ended 31 December 2016 £m |               |                   |                     |   |                      |                           |              |
|--|--------------------------------|---------------|-------------------|---------------------|---|----------------------|---------------------------|--------------|
|  | Share capital                  | Share premium | Retained earnings | Translation reserve | Available -for-sale securities reserves | Shareholders' equity | Non-controlling interests | Total equity |
| Note   | note C10                       | note C10      |                   |                     |   |                      |                           |              |
| Reserves   |                                |               |                   |                     |   |                      |                           |              |
| Profit for the year  | -                              | -             | 1,921             | -                   | -                                       | 1,921                | -                         | 1,921        |
| Other comprehensive income:  |                                |               |                   |                     |   |                      |                           |              |
| Exchange movements on foreign operations and net investment hedges, net of related | -                              | -             | -                 | 1,161               | -                                       | 1,161                | -                         | 1,161        |

|   |     |       |        |         |     |        |         |        |         |
|---|-----|-------|--------|---------|-----|--------|---------|--------|---------|
| tax   |     |       |        |         |     |        |         |        |         |
| Net unrealised valuation movements, net of related change in amortisation of deferred acquisition costs and related tax | -   | -     | -      | -       | 31  | 31     | -       | 31     |         |
| Shareholders' share of actuarial gains and losses on defined benefit pension schemes, net of tax                        | -   | -     | (93)   | -       | -   | (93)   | -       | (93)   |         |
| Total other comprehensive income (loss)   | -   | -     | (93)   | 1,161   | 31  | 1,099  | -       | 1,099  |         |
| Total comprehensive income for the year   | -   | -     | 1,828  | 1,161   | 31  | 3,020  | -       | 3,020  |         |
| Dividends   | B6  | -     | -      | (1,267) | -   | -      | (1,267) | -      | (1,267) |
| Reserve movements in respect of share-based payments  | -   | -     | (51)   | -       | -   | (51)   | -       | (51)   |         |
| Share capital and share premium   |     |       |        |         |     |        |         |        |         |
| New share capital subscribed  | C10 | 1     | 12     | -       | -   | -      | 13      | -      | 13      |
| Treasury shares   |     |       |        |         |     |        |         |        |         |
| Movement in own shares in respect of share-based payment plans  | -   | -     | 2      | -       | -   | 2      | -       | 2      |         |
| Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS                                      | -   | -     | (6)    | -       | -   | (6)    | -       | (6)    |         |
| Net increase in equity  | 1   | 12    | 506    | 1,161   | 31  | 1,711  | -       | 1,711  |         |
| At beginning of year  | 128 | 1,915 | 10,436 | 149     | 327 | 12,955 | 1       | 12,956 |         |
| At end of year  | 129 | 1,927 | 10,942 | 1,310   | 358 | 14,666 | 1       | 14,667 |         |

## International Financial Reporting Standards (IFRS) Basis Results

## Consolidated statement of financial position

31 December      Note    2017 £m    2016 £m  
Assets

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|   |       |         |         |
|---|-------|---------|---------|
| Goodwill  | C5(a) | 1,482   | 1,628   |
| Deferred acquisition costs and other intangible assets                            | C5(b) | 11,011  | 10,807  |
| Property, plant and equipment   |       | 789     | 743     |
| Reinsurers' share of insurance contract liabilities                               |       | 9,673   | 10,051  |
| Deferred tax assets   | C8    | 2,627   | 4,315   |
| Current tax recoverable   |       | 613     | 440     |
| Accrued investment income   |       | 2,676   | 3,153   |
| Other debtors   |       | 2,963   | 3,019   |
| Investment properties   |       | 16,497  | 14,646  |
| Investment in joint ventures and associates accounted for using the equity method |       | 1,416   | 1,273   |
| Loans   | C3.3  | 17,042  | 15,173  |
| Equity securities and portfolio holdings in unit trusts                           |       | 223,391 | 198,552 |
| Debt securities   | C3.2  | 171,374 | 170,458 |
| Derivative assets   |       | 4,801   | 3,936   |
| Other investments   |       | 5,622   | 5,465   |
| Deposits  |       | 11,236  | 12,185  |
| Assets held for sale  |       | 38      | 4,589   |
| Cash and cash equivalents   |       | 10,690  | 10,065  |
| Total assets  | C1    | 493,941 | 470,498 |
| Equity  |       |         |         |
| Shareholders' equity  |       | 16,087  | 14,666  |
| Non-controlling interests   |       | 7       | 1       |
| Total equity  |       | 16,094  | 14,667  |
| Liabilities   |       |         |         |
| Insurance contract liabilities  | C4.1  | 328,172 | 316,436 |
| Investment contract liabilities with discretionary participation features         | C4.1  | 62,677  | 52,837  |
| Investment contract liabilities without discretionary participation features      | C4.1  | 20,394  | 19,723  |

|  |      |         |         |
|--|------|---------|---------|
| Unallocated surplus of with-profits funds  | C4.1 | 16,951  | 14,317  |
| Core structural borrowings of shareholder-financed operations                              | C6.1 | 6,280   | 6,798   |
| Operational borrowings attributable to shareholder-financed operations                     | C6.2 | 1,791   | 2,317   |
| Borrowings attributable to with-profits operations   | C6.2 | 3,716   | 1,349   |
| Obligations under funding, securities lending and sale and repurchase agreements           |      | 5,662   | 5,031   |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds |      | 8,889   | 8,687   |
| Deferred tax liabilities   | C8   | 4,715   | 5,370   |
| Current tax liabilities  |      | 537     | 649     |
| Accruals, deferred income and other liabilities  |      | 14,185  | 13,825  |
| Provisions   |      | 1,123   | 947     |
| Derivative liabilities   |      | 2,755   | 3,252   |
| Liabilities held for sale  |      | -       | 4,293   |
| Total liabilities  | C1   | 477,847 | 455,831 |
| Total equity and liabilities   |      | 493,941 | 470,498 |

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £8,232 million (2016: £8,545 million) of lent securities and assets subject to repurchase agreements.

#### International Financial Reporting Standards (IFRS) Basis Results

#### Consolidated statement of cash flows

| Year ended 31 December               | Note | 2017 £m | 2016 £m |
|--------------------------------------|------|---------|---------|
| Cash flows from operating activities |      | 3,970   | 3,212   |



|  |          |          |
|--|----------|----------|
| Profit before tax (being tax attributable to shareholders' and policyholders' returns)note (i) |          |          |
| Non-cash movements in operating assets and liabilities reflected in profit before tax:         |          |          |
| Investments  | (49,771) | (37,824) |
| Other non-investment and non-cash assets   | (968)    | (2,490)  |
| Policyholder liabilities (including unallocated surplus)                                       | 44,877   | 31,135   |
| Other liabilities (including operational borrowings)   | 3,360    | 7,861    |
| Interest income and expense and dividend income included in result before tax                  | (8,994)  | (9,749)  |
| Other non-cash items   | 549      | 834      |
| Operating cash items:  |          |          |
| Interest receipts  | 6,900    | 7,886    |
| Dividend receipts  | 2,612    | 2,286    |
| Tax paidnote (iv)  | (915)    | (950)    |
| Net cash flows from operating activities   | 1,620    | 2,201    |
| Cash flows from investing activities   |          |          |
| Purchases of property, plant and equipment   | (134)    | (348)    |
| Proceeds from disposal of property, plant and equipment  | -        | 102      |
| Acquisition of subsidiaries and intangiblesnote (v)  | (351)    | (303)    |
| Sale of businessesnote (v)   | 1,301    | -        |
| Net cash flows from investing activities   | 816      | (549)    |
| Cash flows from financing activities   |          |          |
| Structural borrowings of the Group:  |          |          |
| Shareholder-financed operations:note (ii) C6.1   |          |          |
| Issue of subordinated debt, net of costs   | 565      | 1,227    |
| Redemption of subordinated debt  | (751)    | -        |
| Interest paid  | (369)    | (335)    |
| With-profits operations:note (iii) C6.2  |          |          |
| Interest paid  | (9)      | (9)      |
| Equity capital:  |          |          |
| Issues of ordinary share capital   | 21       | 13       |
| Dividends paid   | (1,159)  | (1,267)  |
| Net cash flows from financing activities   | (1,702)  | (371)    |
| Net increase in cash and cash equivalents  | 734      | 1,281    |
| Cash and cash equivalents at beginning of year   | 10,065   | 7,782    |
| Effect of exchange rate changes on cash and cash equivalents                                   | (109)    | 1,002    |
| Cash and cash equivalents at end of year   | 10,690   | 10,065   |

## Notes

(i)

This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii)

Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

The changes in the carrying value of the structural borrowings of shareholder-financed operations during 2017 are analysed as follows:

|  | Cash movements £m           |                    |         | Non-cash movements £m     |                 | Balance at 31 Dec 2017 |
|--|-----------------------------|--------------------|---------|---------------------------|-----------------|------------------------|
|  | Balance at Issue 1 Jan 2017 | Redemption of debt | of debt | Foreign exchange movement | Other movements |                        |
| Structural borrowings of shareholder-financed operations | 6,798                       | 565                | (751)   | (341)                     | 9               | 6,280                  |

(iii)

Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. There is no change in respect of the carrying value of the £100 million structural borrowings of the with-profits operations during 2017. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

(iv)

Tax paid includes £298 million (2016: £226 million) paid on profits taxable at policyholder rather than shareholder rates.

(v)

Net cash flows for corporate transactions are for distribution rights and acquisition and disposal of businesses (including private equity and other subsidiaries acquired by with-profits funds for investment purposes).

## International Financial Reporting Standards (IFRS) Basis Results

### Notes

A

Background

A1

Basis of preparation and exchange rates

These statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) as required by EU law (IAS Regulation EC1606/2032). EU-endorsed IFRS Standards may differ from IFRS Standards issued by the IASB if, at any point in time, new or amended IFRS Standards have not been endorsed by the EU. At 31 December 2017, there were no unendorsed standards effective for the two years ended 31 December 2017 which impact the consolidated financial information of the Group. There were no differences between IFRS Standards endorsed by the EU and IFRS Standards issued by the IASB in terms of their application to the Group.

The Group IFRS accounting policies are the same as those applied for the year ended 31 December 2016 with the exception of the adoption of the new and amended accounting standards as described in note A2.

Exchange rates

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The exchange rates applied for balances and transactions in currency other than the presentational currency of the Group, pounds sterling (GBP) were:

|                   | Closing<br>rate at<br>31 Dec 2017 | Average rate<br>for<br>2017 | Closing<br>rate at<br>31 Dec 2016 | Average rate<br>for<br>2016 |
|-------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
| Local currency: £ |                                   |                             |                                   |                             |
| Hong Kong         | 10.57                             | 10.04                       | 9.58                              | 10.52                       |
| Indonesia         | 18,353.44                         | 17,249.38                   | 16,647.30                         | 18,026.11                   |
| Malaysia          | 5.47                              | 5.54                        | 5.54                              | 5.61                        |
| Singapore         | 1.81                              | 1.78                        | 1.79                              | 1.87                        |
| China             | 8.81                              | 8.71                        | 8.59                              | 8.99                        |
| India             | 86.34                             | 83.90                       | 83.86                             | 91.02                       |
| Vietnam           | 30,719.60                         | 29,279.71                   | 28,136.99                         | 30,292.79                   |
| Thailand          | 44.09                             | 43.71                       | 44.25                             | 47.80                       |
| US                | 1.35                              | 1.29                        | 1.24                              | 1.35                        |

Certain notes to the financial statements present 2016 comparative information at Constant Exchange Rates (CER), in addition to the reporting at Actual Exchange Rates (AER) used throughout the consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates for the balance sheet at the balance sheet date. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. The auditors have reported on the 2017 statutory accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered following the Company's Annual General Meeting. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

### A2

#### New accounting pronouncements in 2017

The IASB has issued the following new accounting pronouncements to be effective for 1 January 2017:

- Disclosure Initiative (Amendments to IAS 7, 'Statement of Cash Flows');
- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12, 'Income Taxes'); and
- Annual improvements to IFRSs 2014 – 2016 cycle.

Other than the additional disclosure of the changes in structural borrowings during the year in the statement of cash flows, these pronouncements have no effect on these financial statements.

### B

#### Earnings performance

## B1

## Analysis of performance by segment

## B1.1

## Segment results – profit before tax

|   | Note  | 2017 £m | 2016* £m |          | %<br>2017 vs 2016 |          |
|---|-------|---------|----------|----------|-------------------|----------|
|   |       |         | AER      | CER      | AER               | CER      |
|   |       |         | note (v) | note (v) | note (v)          | note (v) |
| Asia  |       |         |          |          |                   |          |
| Insurance operations  | B3(a) | 1,799   | 1,503    | 1,571    | 20%               | 15%      |
| Asset management  |       | 176     | 141      | 149      | 25%               | 18%      |
| Total Asia  |       | 1,975   | 1,644    | 1,720    | 20%               | 15%      |
| US  |       |         |          |          |                   |          |
| Jackson (US insurance operations)   | B3(b) | 2,214   | 2,052    | 2,156    | 8%                | 3%       |
| Asset management  |       | 10      | (4)      | (4)      | 350%              | 350%     |
| Total US  |       | 2,224   | 2,048    | 2,152    | 9%                | 3%       |
| UK and Europe   |       |         |          |          |                   |          |
| UK and Europe insurance operations:   | B3(c) |         |          |          |                   |          |
| Long-term business  |       | 861     | 799      | 799      | 8%                | 8%       |
| General insurance commissionnote (i)  |       | 17      | 29       | 29       | (41)%             | (41)%    |
| Total UK and Europe insurance operations  |       | 878     | 828      | 828      | 6%                | 6%       |
| UK and Europe asset managementnote (vi)   | B2    | 500     | 425      | 425      | 18%               | 18%      |
| Total UK and Europe   |       | 1,378   | 1,253    | 1,253    | 10%               | 10%      |
| Total segment profit  |       | 5,577   | 4,945    | 5,125    | 13%               | 9%       |
| Restructuring costs note (iii)  |       | (103)   | (38)     | (39)     | (171)%            | (164)%   |
| Other income and expenditure:   |       |         |          |          |                   |          |
| Investment return and other income  |       | 11      | 28       | 28       | (61)%             | (61)%    |
| Interest payable on core structural borrowings  |       | (425)   | (360)    | (360)    | (18)%             | (18)%    |
| Corporate expenditurenote (ii)  |       | (361)   | (334)    | (340)    | (8)%              | (6)%     |
| Solvency II implementation costs  |       | -       | (28)     | (28)     | n/a               | n/a      |
| Total other income and expenditure  |       | (775)   | (694)    | (700)    | (12)%             | (11)%    |
| Interest received from tax settlement   |       | -       | 43       | 43       | n/a               | n/a      |
| Operating profit based on longer-term investment returns  |       | 4,699   | 4,256    | 4,429    | 10%               | 6%       |
| Short-term fluctuations in investment returns on shareholder-backed business                      | B1.2  | (1,563) | (1,678)  | (1,764)  | 7%                | 11%      |
| Amortisation of acquisition accounting adjustmentsnote (iv)                                       |       | (63)    | (76)     | (79)     | 17%               | 20%      |
| Profit (loss) attaching to disposal of businesses   | D1    | 162     | (227)    | (244)    | n/a               | n/a      |
| Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income | D1    | 61      | -        | -        | n/a               | n/a      |
| Profit before tax   |       | 3,296   | 2,275    | 2,342    | 45%               | 41%      |
| Tax charge attributable to shareholders' returns  | B4    | (906)   | (354)    | (360)    | (156)%            | (152)%   |
| Profit for the year   |       | 2,390   | 1,921    | 1,982    | 24%               | 21%      |

## Attributable to:

|   |        |          |          |                     |                     |
|---|--------|----------|----------|---------------------|---------------------|
| Equity holders of the Company                                     | 2,389  | 1,921    | 1,982    | 24%                 | 21%                 |
| Non-controlling interests   | 1      | -        | -        | N/A                 | N/A                 |
|   | 2017   | 2016     |          | %                   |                     |
|   |        | AER      | CER      | 2017 vs<br>2016 AER | 2017 vs<br>2016 CER |
| Basic earnings per share (in pence)                               | B5     | note (v) | note (v) | note (v)            | note (v)            |
| Based on operating profit based on longer-term investment returns | 145.2p | 131.3p   | 136.8p   | 11%                 | 6%                  |
| Based on profit for the year                                      | 93.1p  | 75.0p    | 77.4p    | 24%                 | 20%                 |

\*

The 2016 comparative results have been re-presented from those previously published following the reassessment of the Group's operating segments as described in note B1.3.

## Notes

(i)

General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.

(ii)

Corporate expenditure as shown above is primarily for Group Head Office and Asia Regional Head Office.

(iii)

Restructuring costs are incurred primarily in UK and Europe and Asia and represent business transformation and integration costs.

(iv)

Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson which was acquired in 2012.

(v)

For definitions of AER and CER refer to note A1. The difference between 'Profit for the year attributable to shareholders' in the prior year on an AER basis and a CER basis is £61 million, arising from the retranslation of the prior year results of the Group's foreign subsidiaries into GBP using the exchange rates applied to the equivalent current year results.

(vi)

UK and Europe asset management operating profit based on longer-term investment returns:

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Asset management fee income   | 1,027   | 900     |
| Other income  | 7       | 23      |
| Staff costs   | (400)   | (332)   |
| Other costs   | (202)   | (212)   |
| Underlying profit before performance-related fees   | 432     | 379     |
| Share of associate results  | 15      | 13      |
| Performance-related fees  | 53      | 33      |
| Total UK and Europe asset management operating profit based on longer-term investment returns | 500     | 425     |

(vii)

Tax charges have been reflected as operating and non-operating in the same way as for the pre-tax items. In 2017 a significant US tax reform package was enacted, and the effects of which in the income statement have been treated as non-operating. Further details are provided in note B4.

## B1.2

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

|                     | 2017 £m | 2016 £m |
|---------------------|---------|---------|
| Asia                | (1)     | (225)   |
| USnote (i)          | (1,568) | (1,455) |
| UK and<br>Europe    | (14)    | 206     |
| Other<br>operations | (20)    | (204)   |
| (iii)               |         |         |
| Total               | (1,563) | (1,678) |

## Notes

(i)

## US operations

The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £462 million as shown in note C5(b) (2016: £565 million) and comprise amounts in respect of the following items:

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Net equity<br>hedge  | (1,490) | (1,587) |
| resultnote (a)<br>Other than<br>equity-related<br>derivatives              | (36)    | (126)   |
| (b)<br>Debt<br>securities note   | (73)    | 201     |
| (c)<br>Equity-type<br>investments:<br>actual less<br>longer-term<br>return | 12      | 35      |
| Other items  | 19      | 22      |
| Total  | (1,568) | (1,455) |

## Notes

(a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the measured value of

guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described in note B1.3(c) below.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP as described in note B1.3 (c);
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

The net equity hedge result (net of related DAC) can be summarised as follows:

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Fair value movements on equity hedge instruments <sup>1</sup>   | (1,871) | (1,786) |
| Accounting value movements on the variable and fixed index annuity guarantee liabilities <sup>2</sup> | (99)    | (188)   |
| Fee assessments net of claim payments   | 480     | 387     |
| Total   | (1,490) | (1,587) |

1. Held to manage equity exposures of the variable annuity guarantees and fixed index annuity options.

2. The accounting value movements on the variable and fixed index annuity guarantee liabilities reflect the impact of market movements and changes in economic and actuarial assumptions. These actuarial assumptions changes include, amongst other items, a charge (net of related DAC) of £359 million for strengthening policyholder utilisation and persistency rates offset by a benefit (net of related DAC) of £382 million from modelling refinements in the period, principally enhancements to how Jackson's own credit risk is incorporated in the fair valuation of these long-term liabilities.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Fair value movements on the Guaranteed Minimum Income Benefit (GMIB) reinsurance asset that are not matched by movements in the underlying GMIB liability, which is not fair valued as explained in note B1.3; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in

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note (a) above. Accounting mismatches arise because of differences between the measurement basis and presentation of the derivatives, which are fair valued with movements recorded in the income statement, and the exposures they are intended to manage.

(c) Short-term fluctuations related to debt securities

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Short-term fluctuations relating to debt securities   |         |         |
| (Charges) credits in the year:  |         |         |
| Losses on sales of impaired and deteriorating bonds   | (3)     | (94)    |
| Defaults  | -       | (4)     |
| Bond write-downs  | (2)     | (35)    |
| Recoveries / reversals  | 10      | 15      |
| Total credits (charges) in the year   | 5       | (118)   |
| Less: Risk margin allowance deducted from operating profit based on longer-term investment returns                                    | 86      | 89      |
|   | 91      | (29)    |
| Interest-related realised (losses) gains:   |         |         |
| (Losses) gains arising in the year  | (43)    | 376     |
| Less: Amortisation of gains and losses arising in current and prior years to operating profit based on longer-term investment returns | (140)   | (135)   |
|   | (183)   | 241     |
| Related amortisation of deferred acquisition costs  | 19      | (11)    |
| Total short-term fluctuations related to debt securities  | (73)    | 201     |

Note

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit with variations from year to year included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for 2017 is based on an average annual risk margin reserve of 21 basis points (2016: 21 basis points) on average book values of US\$55.3 billion (2016: US\$56.4 billion) as shown below:

| Moody's rating category<br>(or equivalent under<br>NAIC ratings of mortgage-backed securities) | 2017                              |          | Annual                    |                        | 2016                              |          | Annual                    |                        |
|--|-----------------------------------|----------|---------------------------|------------------------|-----------------------------------|----------|---------------------------|------------------------|
|  | Average<br>book<br>value<br>US\$m | RMR<br>% | expected<br>loss<br>US\$m | expected<br>loss<br>£m | Average<br>book<br>value<br>US\$m | RMR<br>% | expected<br>loss<br>US\$m | expected<br>loss<br>£m |
| A3 or higher   | 27,277                            | 0.12     | (33)                      | (25)                   | 29,051                            | 0.12     | (36)                      | (27)                   |
| Baa1, 2 or 3   | 26,626                            | 0.22     | (58)                      | (45)                   | 25,964                            | 0.24     | (62)                      | (46)                   |
| Ba1, 2 or 3  | 1,046                             | 1.03     | (11)                      | (8)                    | 1,051                             | 1.07     | (11)                      | (8)                    |
| B1, 2 or 3   | 318                               | 2.70     | (9)                       | (7)                    | 312                               | 2.95     | (9)                       | (7)                    |
| Below B3   | 23                                | 3.78     | (1)                       | (1)                    | 40                                | 3.81     | (2)                       | (1)                    |
| Total  | 55,290                            | 0.21     | (112)                     | (86)                   | 56,418                            | 0.21     | (120)                     | (89)                   |
| Related amortisation of deferred acquisition costs (see below)                                 |                                   |          | 21                        | 15                     |                                   |          | 23                        | 17                     |
| Risk margin reserve charge to operating profit for longer-term credit-related losses           |                                   |          | (91)                      | (71)                   |                                   |          | (97)                      | (72)                   |



Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related amortisation of deferred acquisition costs.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit of £541 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (2016: credit of £48 million). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(ii)

UK and Europe operations

The negative short-term fluctuations in investment returns for UK and Europe operations of £(14) million (2016: positive £206 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iii)

Other operations

The positive short-term fluctuations in investment returns for other operations of £20 million (2016: negative £(204) million) include unrealised value movements on financial instruments.

### B1.3

Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments for financial reporting are defined and presented in accordance with IFRS 8, 'Operating Segments' on the basis of the management reporting structure and its financial management information. Following the combination during the year of the Group's UK insurance business and M&G to form M&G Prudential. The Group has reassessed its operating segments.

Under the Group's management and reporting structure its chief operating decision maker is the Group Executive Committee (GEC). In the revised management structure, responsibility is delegated to the Chief Executive Officers of Prudential Corporation Asia, the North American Business Unit and M&G Prudential for the day-to-day management of their business units (within the framework set out in the Group Governance Manual). Financial management information used by the GEC has been revised to align with these three business segments. These operating segments derive revenue from both long-term insurance and asset management activities.

In the prior year, the operating segments of the Group were each of the insurance operations in Asia, US and UK, and the asset management operations of Asia, US, M&G and Prudential Capital.

Operations which do not form part of any business unit are reported as 'Unallocated to a segment'. These include Group Head Office and Asia Regional Head Office costs. Following the formation of M&G Prudential certain minor operations which were previously reported as 'Unallocated to a segment' are now included in the UK and Europe segment, reflecting the revised structure. Prudential Capital and Africa operations do not form part of any operating segment under the revised structure, and their assets and liabilities and loss before tax are not material to the overall financial position of the Group. Prudential Capital and Africa operations are therefore reported as 'Unallocated to a segment'.

Comparative segmental information for prior periods has been presented on a basis consistent with the current year.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns, as described below. This measurement basis distinguishes operating profit based on long-term investment returns from other constituents of the total profit as follows:

–

Short-term fluctuations in investment returns on shareholder-backed business. This includes the impact of short-term market effects on the carrying value of Jackson's guarantee liabilities and related derivatives as explained below.

–

Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and

–

Profit / loss attaching to businesses that have been sold in the year including, where relevant, the recycling of the cumulative translation gain or loss in respect of sold businesses.

Determination of operating profit based on longer-term investment returns for investment and liability movements:

(a)

General principles

(i)

UK style with-profits business

The operating profit based on longer-term returns reflects the statutory transfer gross of attributable tax. Value movements in the underlying assets of the with-profits funds do not affect directly the determination of operating profit.

(ii)

Unit-linked business

The policyholder unit liabilities are directly reflective of the underlying asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in both the unit liabilities and the backing assets.

(iii)

US variable annuity and fixed index annuity business

This business has guarantee liabilities which are measured on a combination of fair value and other US GAAP derived principles. These liabilities are subject to an extensive derivative programme to manage equity and interest rate exposures. The principles for determination of the operating profit and short-term fluctuations are necessarily bespoke, as discussed in section (c) below.

(iv)

Business where policyholder liabilities are sensitive to market conditions

Under IFRS, the degree to which the carrying values of liabilities to policyholders are sensitive to current market conditions varies between territories depending upon the nature of the 'grandfathered' measurement basis. In general, in those instances where the liabilities are particularly sensitive to routine changes in market conditions, the accounting basis is such that the impact of market movements on the assets and liabilities is broadly equivalent in the income statement, and operating profit based on longer-term investments returns is not distorted. In these circumstances, there is no need for the movement in the liability to be bifurcated between the elements that relate to longer-term market conditions and short-term effects.

However, movements in liabilities for some types of business do require bifurcation to ensure that at the net level (ie after allocated investment return and charge for policyholder benefits) the operating result reflects longer-term market returns.

Examples of where such bifurcation is necessary are in Hong Kong and for UK shareholder-backed annuity business, as explained in sections b(i) and d(i), respectively. For other types of Asia's non-participating business, expected longer-term investment returns are used to determine the movement in policyholder liabilities for determining operating results.

(v)

#### Other shareholder-financed business

The measurement of operating profit based on longer-term investment returns reflects the particular features of long-term insurance business where assets and liabilities are held for the long term and for which the accounting basis for insurance liabilities under current IFRS is not generally conducive to demonstrating trends in underlying performance of life businesses exclusive of the effects of short-term fluctuations in market conditions. In determining the profit on this basis, the following key elements are applied to the results of the Group's shareholder-financed operations.

Except in the case of assets backing liabilities which are directly matched (such as unit-linked business) or closely correlated with value movements (as discussed below) operating profit based on longer-term investment returns for shareholder-financed business is determined on the basis of expected longer-term investment returns. Longer-term investment returns comprise actual income receivable for the period (interest/dividend income) and for both debt and equity-type securities longer-term capital returns.

#### Debt securities and loans

In principle, for debt securities and loans, the longer-term capital returns comprise two elements:

–

Risk margin reserve based charge for the expected level of defaults for the period, which is determined by reference to the credit quality of the portfolio. The difference between impairment losses in the reporting period and the risk margin reserve charge to the operating result is reflected in short-term fluctuations in investment returns; and

–

The amortisation of interest-related realised gains and losses to operating results based on longer-term investment returns to the date when sold bonds would have otherwise matured.

At 31 December 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds for the Group was a net gain of £855 million (2016: £969 million).

#### Equity-type securities

For equity-type securities, the longer-term rates of return are estimates of the long-term trend investment returns for income and capital having regard to past performance, current trends and future expectations. Equity-type securities held for shareholder-financed operations other than the UK annuity business, unit-linked and US variable annuity separate accounts are principally relevant for the US and Asia insurance operations. Different rates apply to different categories of equity-type securities.

#### Derivative value movements

Generally, derivative value movements are excluded from operating results based on longer-term investment returns (unless those derivative value movements broadly offset changes in the accounting value of other assets and liabilities included in operating profit). The principal example of derivatives whose value movements are excluded from operating profit arises in Jackson, as discussed below in section (c).

(b)

#### Asia insurance operations

(i)

Business where policyholder liabilities are sensitive to market conditions

For certain Asia non-participating business, for example in Hong Kong, the economic features are more akin to asset management products with policyholder liabilities reflecting asset shares over the contract term. For these products, the charge for policyholder benefits in the operating results should reflect the asset share feature rather than volatile movements that would otherwise be reflected if the local regulatory basis (also applied for IFRS basis) was used.

For certain other types of non-participating business expected longer-term investment returns are used to determine the movement in policyholder liabilities for determining operating results.

(ii)

Other Asia shareholder-financed business

Debt securities

For this business, the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

Equity-type securities

For Asia insurance operations, investments in equity securities held for non-linked shareholder-backed operations amounted to £1,759 million as at 31 December 2017 (2016: £1,405 million). The rates of return applied in 2017 ranged from 4.3 per cent to 17.2 per cent (2016: 3.2 per cent to 13.9 per cent) with the rates applied varying by business unit. These rates are broadly stable from period to period but may be different between countries reflecting, for example, differing expectations of inflation in each business unit. The assumptions are for the returns expected to apply in equilibrium conditions. The assumed rates of return do not reflect any cyclical variability in economic performance and are not set by reference to prevailing asset valuations.

The longer-term investment returns for the Asia insurance joint ventures accounted for using the equity method are determined on a similar basis as the other Asia insurance operations described above.

(c)

US insurance operations

(i)

Separate account business

For such business the policyholder unit liabilities are directly reflective of the asset value movements. Accordingly, the operating results based on longer-term investment returns reflect the current period value movements in unit liabilities and the backing assets.

(ii)

US variable and fixed index annuity business

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

–

Fair value movements for equity-based derivatives;

–

Fair value movements for embedded derivatives for the 'not for life' portion of Guaranteed Minimum Withdrawal Benefit ('GMWB') and fixed index annuity business, and Guaranteed Minimum Income Benefit ('GMIB') reinsurance (see below);

–

Movements in the accounts carrying value of Guaranteed Minimum Death Benefit ('GMDB'), GMIB and the 'for life' portion of GMWB liabilities, (see below) for which, under the 'grandfathered' US GAAP applied under IFRS for Jackson's insurance assets and liabilities, the measurement basis gives rise to a muted impact of current period market movements (ie they are relatively insensitive to the effect of current period equity market and interest rate changes);

–  
A portion of the fee assessments as well as claim payments, in respect of guarantee liabilities; and  
–

Related amortisation of deferred acquisition costs for each of the above items.

Embedded derivatives for the ‘not for life’ portion of GMWB and fixed index annuity business

The ‘not for life’ portion of GMWB embedded derivative liabilities is measured under the US GAAP basis applied for IFRS in a manner consistent with IAS 39 under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.

Embedded derivatives for variable annuity guarantee minimum income benefit

The GMIB liability, which is substantially fully reinsured, subject to a deductible and annual claim limits, is accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 944-80 Financial Services – Insurance – Separate Accounts (formerly SOP 03-1) under IFRS using ‘grandfathered’ US GAAP. This accounting basis substantially does not recognise the effects of market movements. As the corresponding reinsurance asset is net settled, it is considered to be a derivative under IAS 39, ‘Financial Instruments: Recognition and Measurement’, and the asset is therefore recognised at fair value. As the GMIB is economically reinsured, the mark to market element of the reinsurance asset is included as a component of short-term fluctuations in investment returns.

(iii)

Other derivative value movements

The principal example of non-equity based derivatives (for example, interest rate swaps and swaptions) whose value movements are excluded from operating profit, arises in Jackson. Non-equity based derivatives are primarily held by Jackson as part of a broadly-based hedging programme for features of Jackson’s bond portfolio (for which value movements are booked in the statement of other comprehensive income rather than the income statement), product liabilities (for which US GAAP accounting as ‘grandfathered’ under IFRS 4 does not fully reflect the economic features being hedged), and the interest rate exposure attaching to equity-based embedded derivatives.

(iv)

Other US shareholder-financed business

Debt securities

Jackson is the shareholder-backed operation for which the distinction between impairment losses and interest-related realised gains and losses is in practice relevant to a significant extent. Jackson has used the ratings by Nationally Recognised Statistical Ratings Organisations (NRSRO) or ratings resulting from the regulatory ratings detail issued by the National Association of Insurance Commissioners (NAIC) developed by external third parties such as BlackRock Solutions to determine the average annual risk margin reserve to apply to debt securities held to back general account business. Debt securities held to back separate account and reinsurance funds withheld are not subject to risk margin reserve charge. Further details of the risk margin reserve charge, as well as the amortisation of interest-related realised gains and losses, for Jackson are shown in note B1.2.

Equity-type securities

As at 31 December 2017, the equity-type securities for US insurance non-separate account operations amounted to £946 million (2016: £1,323 million). For these operations, the longer-term rates of return for income and capital applied in the years indicated, which reflect the combination of the average risk-free rates over the year and appropriate risk premiums are as follows:

| 2017         | 2016         |
|--------------|--------------|
| 6.1% to 6.5% | 5.5% to 6.5% |

Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds

Other equity-type securities such as investments in limited partnerships and private equity funds 8.1% to 8.5% 7.5% to 8.5%

(d)

UK and Europe insurance operations

(i)

Shareholder-backed annuity business

For this business, policyholder liabilities are determined by reference to current interest rates. The value movements of the assets covering liabilities are closely correlated with the related change in liabilities. Accordingly, asset value movements are recorded within the 'operating results based on longer-term investment returns'. Policyholder liabilities include a margin for credit risk. Variations between actual and best estimate expected impairments are recorded as a component of short-term fluctuations in investment returns.

The operating result based on longer-term investment returns reflects the impact of value movements on policyholder liabilities for shareholder-backed annuity business within The Prudential Assurance Company Limited (PAC) after adjustments to allocate the following elements of the movement to the category of 'short-term fluctuations in investment returns':

–

The impact on credit risk provisioning of actual upgrades and downgrades during the period;

–

Credit experience compared with assumptions; and

–

Short-term value movements on assets backing the capital of the business.

Credit experience reflects the impact of defaults and other similar experience, such as asset exchanges arising from debt restructuring by issuers that include effectively an element of permanent impairment of the security held. Positive or negative experience compared with assumptions is included within short-term fluctuations in investment returns without further adjustment. The effects of other changes to credit risk provisioning are included in the operating result, as is the net effect of changes to the valuation rate of interest due to portfolio rebalancing to align more closely with management benchmark.

(ii)

Non-linked shareholder-financed business

For debt securities backing non-linked shareholder-financed business of the UK and Europe insurance operations (other than the annuity business) the realised gains and losses are principally interest related. Accordingly, all realised gains and losses to date for these operations are being amortised over the period to the date those securities would otherwise have matured, with no explicit risk margin reserve charge.

(e)

Fund management and other non-insurance businesses

For these businesses, the particular features applicable for life assurance noted above do not apply. For these businesses, it is inappropriate to include returns in the operating result on the basis described above. Instead, it is appropriate to generally include realised gains and losses in the operating result with temporary unrealised gains and losses being included in short-term fluctuations. In some instances, it may also be appropriate to amortise realised gains and losses on derivatives and other financial instruments to operating results over a time period that reflects the underlying economic substance of the arrangements.

B2

## Acquisition costs and other expenditure

|   | 2017 £m  | 2016 £m |
|---|----------|---------|
| Acquisition costs incurred for insurance policies   | (3,712)  | (3,687) |
| Acquisition costs deferred less amortisation of acquisition costs                           | 911      | 923     |
| Administration costs and other expenditure  | (6,380)  | (5,522) |
| Movements in amounts attributable to external unit holders of consolidated investment funds | (984)    | (562)   |
| Total acquisition costs and other expenditure   | (10,165) | (8,848) |

## B3

## Effect of changes and other accounting matters on insurance assets and liabilities

The following matters are relevant to the determination of the 2017 results:

## (a)

## Asia insurance operations

In 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £75 million (2016: £67 million) representing a small number of individually minor items.

## (b)

## US insurance operations

Changes in the policyholder liabilities held for variable and fixed index annuity guarantees are reported as part of non-operating profit and are as described in note B1.2.

## (c)

## UK and Europe insurance operations

## Annuity business

## Allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults.

The IFRS credit risk allowance made for the UK shareholder-backed fixed and linked annuity business equated to 42 basis points at 31 December 2017 (2016: 43 basis points). The allowance represented 28 per cent of the bond spread over swap rates (2016: 26 per cent).

The reserves for credit risk allowance at 31 December 2017 for the UK shareholder-backed business were £1.6 billion (2016: £1.7 billion).

## Other assumption changes

For the shareholder-backed business, in addition to the movement in the credit risk allowance discussed above, the net effect of routine changes to assumptions in 2017, was a credit of £173 million (2016: credit of £16 million). This included, amongst other items, a benefit to IFRS operating profit based on longer-term investment returns of £204 million, relating to changes to annuitant mortality assumptions primarily reflecting the adoption of the Continuous Mortality Investigation (CMI) 2015 model.

## Longevity reinsurance and other management actions

A number of management actions were taken in 2017 to improve the solvency position of the UK and Europe insurance operations and further mitigate market risk, which have generated combined profits of £276 million. Similar

actions were also taken in 2016 and 2015.

Of this amount £31 million related to profit from an additional longevity reinsurance transactions covering £0.5 billion of annuity liabilities on an IFRS basis, with the balance of £245 million reflecting the effect of repositioning the fixed income portfolio and other actions. The contribution to profit from similar longevity reinsurance and other management actions in 2016 was £332 million (of which £197 million related to longevity reinsurance transactions covering £5.4 billion of IFRS annuity liabilities).

At 31 December 2017, longevity reinsurance covered £14.4 billion of IFRS annuity liabilities equivalent to 44 per cent of total annuity liabilities (2016: £14.4 billion, 42 per cent).

#### Review of past annuity sales

Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The FCA formally released its redress calculation methodology in early 2018 and accordingly Prudential reassessed the provision held to cover the costs of undertaking the review and any potential redress. At 31 December 2017, following this reassessment, the gross provision was increased to £400 million (2016: £175 million), excluding any utilisation during the year. The ultimate amount that will be expended by the Group on the review, which is currently expected to be completed in 2019, remains uncertain. Although the Group's professional indemnity insurance is expected to mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

#### B4 Tax charge

On 22 December 2017, a significant US tax reform package, The Tax Cuts and Jobs Act, was enacted into law effective from 1 January 2018. The tax reform package as a whole, which includes a reduction in the corporate income tax rate from 35 per cent to 21 per cent, and a number of specific measures affecting US life insurers, is expected to be beneficial in the longer term. However in 2017 the changes have had an adverse impact on the tax charge attributable to shareholders in the Group's US operations and a benefit to policyholders in the with-profits fund of the UK and Europe operations, due to the requirement to remeasure deferred tax balances at the new 21 per cent rate. The 2017 impacts on the Group's income statement and on other comprehensive income of the US tax changes are set out below and the impact on the balance sheet are set out in note C8.

(a)

Total tax charge by nature of expense

The total tax charge in the income statement is as follows:

| Tax charge                               | 2017 £m     |              | 2016 £m |       |
|--|-------------|--------------|---------|-------|
|  | Current tax | Deferred tax | Total   | Total |
| Attributable to shareholders:            |             |              |         |       |
| Asia operations                          | (164)       | (89)         | (253)   | (256) |
| US operations                            | 56          | (564)        | (508)   | 66    |
| UK and Europe                            | (302)       | 35           | (267)   | (275) |
| Other operations                         | 122         | -            | 122     | 111   |
| Tax charge attributable to shareholders' | (288)       | (618)        | (906)   | (354) |



|   |       |       |         |         |
|---|-------|-------|---------|---------|
| returns   |       |       |         |         |
| Attributable to policyholders:                    |       |       |         |         |
| Asia operations                                   | (92)  | (157) | (249)   | (155)   |
| UK and Europe                                     | (316) | (109) | (425)   | (782)   |
| Tax charge attributable to policyholders' returns | (408) | (266) | (674)   | (937)   |
| Total tax charge                                  | (696) | (884) | (1,580) | (1,291) |

The principal reason for the increase in the tax charge attributable to shareholders' returns is a £445 million deferred tax charge arising on the remeasurement of the US net deferred tax assets from 35 per cent to 21 per cent. The principal reason for the decrease in the tax charge attributable to policyholders' returns is a smaller increase in deferred tax liabilities on unrealised gains on investments in the with-profits fund of UK and Europe compared to 2016, combined with a £92 million credit following the remeasurement of US net deferred tax liabilities in the same with-profits fund.

The reconciliation of the expected to actual tax charge attributable to shareholders is provided in (b) below. The tax charge attributable to policyholders of £674 million above is equal to the profit before tax attributable to policyholders of £674 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis.

In 2017, a tax charge of £75 million (2016: credit of £10 million) attributable to shareholders has been taken through other comprehensive income. The 2017 charge includes a £190 million deferred tax charge primarily on unrealised gains on bonds held in the US operations partly offset by £134 million benefit relating to the remeasurement of US net deferred tax liabilities on the bonds

(b)  
Reconciliation of shareholder effective tax rate

In the reconciliation below, the expected tax rates reflect the corporation tax rates that are expected to apply to the taxable profit of the relevant business. Where there are profits of more than one jurisdiction the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit contributing to the aggregate business result.

|   | 2017 £m         |               |               |                   | Total attributable to shareholders | Percentage impact on ETR |
|---|-----------------|---------------|---------------|-------------------|------------------------------------|--------------------------|
|   | Asia operations | US operations | UK and Europe | Other* operations |                                    |                          |
| Operating profit (loss) based on longer-term investment returns | 1,975           | 2,224         | 1,378         | (878)             | 4,699                              |                          |
| Non-operating profit (loss)                                     | 53              | (1,462)       | (14)          | 20                | (1,403)                            |                          |
| Profit (loss) before tax  | 2,028           | 762           | 1,364         | (858)             | 3,296                              |                          |
| Expected tax rate   | 21%             | 35%           | 19%           | 19%               | 24%                                |                          |
| Tax at the expected rate  | 426             | 267           | 259           | (163)             | 789                                | 23.9%                    |
| Effects of recurring tax reconciliation items:                  |                 |               |               |                   |                                    |                          |
| Income not taxable or taxable at concessionary rates            | (64)            | (11)          | (2)           | (14)              | (91)                               | (2.8%)                   |
|   | 26              | 6             | 13            | 10                | 55                                 | 1.7%                     |

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|   |       |       |     |       |       |         |
|---|-------|-------|-----|-------|-------|---------|
| Deductions not allowable for tax purposes                       |       |       |     |       |       |         |
| Items related to taxation of life insurance businesses          | (92)  | (238) | (2) | -     | (332) | (10.1%) |
| Deferred tax adjustments  | 11    | 17    | (1) | (5)   | 22    | 0.7%    |
| Effect of results of joint ventures and associates              | (52)  | -     | (3) | -     | (55)  | (1.7%)  |
| Irrecoverable withholding taxes                                 | -     | -     | -   | 54    | 54    | 1.6%    |
| Other   | (10)  | -     | 6   | (1)   | (5)   | (0.1%)  |
| Total   | (181) | (226) | 11  | 44    | (352) | (10.7%) |
| Effects of non-recurring tax reconciliation items:              |       |       |     |       |       |         |
| Adjustments to tax charge in relation to prior years            | (3)   | (15)  | (3) | (3)   | (24)  | (0.7%)  |
| Movements in provisions for open tax matters                    | 19    | 25    | -   | -     | 44    | 1.3%    |
| Impact of US tax reform   | -     | 445   | -   | -     | 445   | 13.5%   |
| Adjustments in relation to business disposals                   | (8)   | 12    | -   | -     | 4     | 0.1%    |
| Total   | 8     | 467   | (3) | (3)   | 469   | 14.2%   |
| Total actual tax charge (credit)                                | 253   | 508   | 267 | (122) | 906   | 27.4%   |
| Analysed into:  |       |       |     |       |       |         |
| Tax on operating profit based on longer-term investment returns | 276   | 548   | 268 | (121) | 971   |         |
| Tax on non-operating profit                                     | (23)  | (40)  | (1) | (1)   | (65)  |         |
| Actual tax rate:  |       |       |     |       |       |         |
| Operating profit based on longer-term investment returns:       |       |       |     |       |       |         |
| Including non-recurring tax reconciling items                   | 14%   | 25%   | 19% | 14%   | 21%   |         |
| Excluding non-recurring tax reconciling items                   | 13%   | 24%   | 20% | 13%   | 20%   |         |
| Total profit  | 12%   | 67%   | 20% | 14%   | 27%   |         |

\*

Other operations include restructuring costs.

The more significant reconciling items are explained below:

Income not taxable or taxable at concessionary rates

£26 million of the £64 million reconciling item in Asia operations is due to non-taxable gains on domestic securities in Taiwan (no equivalent amount in 2016) with the balance principally relating to income taxable at rates lower than the expected rates in Malaysia and Singapore.

Items related to taxation of life insurance businesses

The £92 million reconciling item in Asia operations reflects where the basis of tax is not the accounting profits, primarily in:

- Hong Kong where the taxable profit is based on the net insurance premiums; and

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- Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

It is higher than the 2016 adjustment of £20 million due to a larger proportion of profits attributable to Hong Kong.

The £238 million (full year 2016: £159 million) reconciling item in US operations reflects the impact of the dividend received deduction on the taxation of profits from variable annuity business. US tax reform changes effective from 1 January 2018 are expected to reduce the level of this deduction from 2018 onwards.

### Effects of results of joint ventures and associates

The £55 million reconciling item arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge.

### Irrecoverable withholding taxes

The £54 million adverse reconciling items reflects withholding taxes on dividends paid by certain non-UK subsidiaries, principally Indonesia, to the UK. The dividends are exempt from UK tax and consequently the withholding tax cannot be offset against UK tax payments.

### Movements in provisions for open tax matters

The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. This uncertainty means that in the normal course of business the Group will have matters where upon ultimate resolution of the uncertainty, the amount of profit subject to tax may be greater than the amounts reflected in the Group's submitted tax returns. The statement of financial position contains the following provisions in relation to open tax matters:

|  | £m    |
|--|-------|
| At 1 January 2017                            | (89)  |
| Movements in the current period included in: |       |
| Tax charge attributable to shareholders      | (44)  |
| Other movements*                             | (6)   |
| At 31 December 2017                          | (139) |

\*

Other movements include interest arising on open tax matters and amounts included in the Group's share of profits from joint ventures and associates, net of related tax.

### Impact of US tax reform

As noted earlier, the reduction in the US corporate income tax rate from 35 per cent to 21 per cent from 1 January 2018 was substantively enacted on 22 December 2017, giving rise to a £445 million unfavourable reconciling item in US operations relating to the remeasurement of the net deferred tax asset attributable to shareholders. Separately a £134 million benefit has been recognised in other comprehensive income. Further detail on the impact of US tax reform is provided in note C8.

|   | 2016** £m       |               |               |                   |         |                          |
|---|-----------------|---------------|---------------|-------------------|---------|--------------------------|
|   | Asia operations | US operations | UK and Europe | Other* operations |         |                          |
| Operating profit (loss) based on longer-term investment returns | 1,644           | 2,048         | 1,253         | (689)             | 4,256   |                          |
| Non-operating (loss) profit                                     | (460)           | (1,523)       | 206           | (204)             | (1,981) |                          |
| Profit (loss) before tax  | 1,184           | 525           | 1,459         | (893)             | 2,275   |                          |
| Expected tax rate   | 22%             | 35%           | 20%           | 20%               | 24%     | Percentage impact on ETR |

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|   |      |       |      |       |       |        |
|---|------|-------|------|-------|-------|--------|
| Tax at the expected rate  | 260  | 184   | 292  | (179) | 557   | 24.4%  |
| Effects of recurring tax reconciliation items:                  |      |       |      |       |       |        |
| Income not taxable or taxable at concessionary rates            | (31) | (18)  | (13) | (5)   | (67)  | (2.9%) |
| Deductions not allowable for tax purposes                       | 20   | 8     | 10   | 22    | 60    | 2.6%   |
| Items related to taxation of life insurance businesses          | (20) | (159) | (1)  | -     | (180) | (7.9%) |
| Deferred tax adjustments  | (11) | -     | 2    | (14)  | (23)  | (1.0%) |
| Effect of results of joint ventures and associates              | (44) | -     | (2)  | -     | (46)  | (2.0%) |
| Irrecoverable withholding taxes                                 | -    | -     | -    | 36    | 36    | 1.6%   |
| Other   | 3    | -     | -    | (7)   | (4)   | (0.1%) |
| Total   | (83) | (169) | (4)  | 32    | (224) | (9.7%) |
| Effects of non-recurring tax reconciliation items:              |      |       |      |       |       |        |
| Adjustments to tax charge in relation to prior years            | 1    | (81)  | (7)  | 5     | (82)  | (3.6%) |
| Movements in provisions for open tax matters                    | 20   | -     | -    | 31    | 51    | 2.2%   |
| Impact of changes in local statutory tax rates                  | -    | -     | (6)  | -     | (6)   | (0.2%) |
| Write-down of Korea life business                               | 58   | -     | -    | -     | 58    | 2.5%   |
| Total   | 79   | (81)  | (13) | 36    | 21    | 0.9%   |
| Total actual tax charge (credit)                                | 256  | (66)  | 275  | (111) | 354   | 15.6%  |
| Analysed into:  |      |       |      |       |       |        |
| Tax on operating profit based on longer-term investment returns | 271  | 467   | 244  | (88)  | 894   |        |
| Tax on non-operating profit                                     | (15) | (533) | 31   | (23)  | (540) |        |
| Actual tax rate:  |      |       |      |       |       |        |
| Operating profit based on longer-term investment returns:       |      |       |      |       |       |        |
| Including non-recurring tax reconciling items                   | 16%  | 23%   | 19%  | 13%   | 21%   |        |
| Excluding non-recurring tax reconciling items                   | 15%  | 27%   | 21%  | 18%   | 22%   |        |
| Total profit  | 22%  | (13)% | 19%  | 12%   | 16%   |        |

\*

Other operations include restructuring costs.

\*\*

The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

The 2016 expected and actual tax rates as shown include the impact of the re-measurement loss on the held for sale Korea life business. The 2016 tax rates for Asia operations and Group, excluding the impact of the held for sale Korea life business are as follows:

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|  | Asia operations | Attributable to shareholders |
|--|-----------------|------------------------------|
| Expected tax rate on total profit                        | 22%             | 24%                          |
| Actual tax rate:   |                 |                              |
| Operating profit based on longer-term investment returns | 16%             | 21%                          |
| Total profit   | 18%             | 14%                          |

B5

Earnings per share

|   | 2017       |            |                           |     | Net of tax and non-controlling interests | Basic earnings per share | Diluted earnings per share |
|---|------------|------------|---------------------------|-----|--|--------------------------|----------------------------|
|   | Before tax | Tax        | Non-controlling interests |     |  |                          |                            |
|   | Note       | B1.1<br>£m | B4<br>£m                  | £m  |  |                          |                            |
| Based on operating profit based on longer-term investment returns                                 |            | 4,699      | (971)                     | (1) | 3,727                                    | 145.2p                   | 145.1p                     |
| Short-term fluctuations in investment returns on shareholder-backed business                      | B1.2       | (1,563)    | 572                       | -   | (991)                                    | (38.6)p                  | (38.6)p                    |
| Amortisation of acquisition accounting adjustments  |            | (63)       | 20                        | -   | (43)                                     | (1.7)p                   | (1.7)p                     |
| Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income | D1         | 61         | -                         | -   | 61                                       | 2.4p                     | 2.4p                       |
| Profit attaching to disposal of businesses  | D1         | 162        | (82)                      | -   | 80                                       | 3.1p                     | 3.1p                       |
| Impact of US Tax Reform   | B4         | -          | (445)                     | -   | (445)                                    | (17.3)p                  | (17.3)p                    |
| Based on profit for the year  |            | 3,296      | (906)                     | (1) | 2,389                                    | 93.1p                    | 93.0p                      |
|   | 2016       |            |                           |     | Net of tax and non-controlling interests | Basic earnings per share | Diluted earnings per share |
|   | Before tax | Tax        | Non-controlling interests |     |  |                          |                            |

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|  | Note | B1.1<br>£m | B4<br>£m | £m | £m      | Pence   | Pence   |
|--|------|------------|----------|----|---------|---------|---------|
| Based on operating profit based on longer-term investment returns            |      | 4,256      | (894)    | -  | 3,362   | 131.3p  | 131.2p  |
| Short-term fluctuations in investment returns on shareholder-backed business | B1.2 | (1,678)    | 519      | -  | (1,159) | (45.3)p | (45.2)p |
| Loss attaching to held for sale Korea life business                          | D1   | (227)      | (4)      | -  | (231)   | (9.0)p  | (9.0)p  |
| Amortisation of acquisition accounting adjustments                           |      | (76)       | 25       | -  | (51)    | (2.0)p  | (2.0)p  |
| Based on profit for the year   |      | 2,275      | (354)    | -  | 1,921   | 75.0p   | 75.0p   |

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating earnings per share, which excludes those held in employee share trusts and consolidated unit trusts and OEICs, is set out as below:

|  | 2017<br>(millions) | 2016<br>(millions) |
|--|--------------------|--------------------|
| Weighted average number of shares for calculation of:                              |                    |                    |
| Basic earnings per share   | 2,567              | 2,560              |
| Shares under option at end of year   | 6                  | 7                  |
| Number of shares that would have been issued at fair value on assumed option price | (5)                | (5)                |
| Diluted earnings per share   | 2,568              | 2,562              |

B6  
Dividends

|   | 2017            |       | 2016            |       |
|---|-----------------|-------|-----------------|-------|
|   | Pence per share | £m    | Pence per share | £m    |
| Dividends relating to reporting year:           |                 |       |                 |       |
| First interim ordinary dividend                 | 14.50p          | 375   | 12.93p          | 333   |
| Second interim ordinary dividend                | 32.50p          | 841   | 30.57p          | 789   |
| Total   | 47.00p          | 1,216 | 43.50p          | 1,122 |
| Dividends paid in reporting year:               |                 |       |                 |       |
| Current year first interim ordinary dividend    | 14.50p          | 373   | 12.93p          | 332   |
| Second interim ordinary dividend for prior year | 30.57p          | 786   | 26.47p          | 679   |
| Special dividend                                | -               | -     | 10.00p          | 256   |
| Total   | 45.07p          | 1,159 | 49.40p          | 1,267 |

## Dividend per share

For the year ended 31 December 2016 the second interim ordinary dividend of 30.57 pence per ordinary share was paid to eligible shareholders on 19 May 2017. The 2017 first interim ordinary dividend of 14.50 pence per ordinary share was paid to eligible shareholders on 28 September 2017.

The second interim ordinary dividend for the year ended 31 December 2017 of 32.50 pence per ordinary share will be paid on 18 May 2018 in sterling to shareholders on the principal register and the Irish branch register at 6.00pm BST on 3 April 2018 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 25 May 2018. The second interim ordinary dividend will be paid on or about 25 May 2018 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 13 March 2018. The exchange rate at which the dividend payable to the SG Shareholders will be translated into Singapore dollars, will be determined by CDP.

Shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

## C

## Balance sheet notes

## C1

## Analysis of Group statement of financial position by segment

## (a)

Position as at 31 December 2017

|  |       | 2017 £m |       |               |  |   | 2016 £m        |                |
|--|-------|---------|-------|---------------|--|---|----------------|----------------|
|  | Note  | Asia    | US    | UK and Europe | Unallo-<br>cated<br>to a segment<br>(other<br>opera-<br>tions) | Elimin-<br>ation<br>of intra-<br>group<br>debtors<br>and<br>creditors | Group<br>Total | Group<br>Total |
| By operating segment                                   |       | C2.1    | C2.2  | C2.3          | note (i)   |   |                |                |
| Assets   |       |         |       |               |  |   |                |                |
| Goodwill   | C5(a) | 305     | -     | 1,177         | -  | -   | 1,482          | 1,628          |
| Deferred acquisition costs and other intangible assets | C5(b) | 2,540   | 8,219 | 210           | 42   | -   | 11,011         | 10,807         |
| Property, plant and equipment                          |       | 125     | 214   | 447           | 3  | -   | 789            | 743            |
| Reinsurers' share of insurance contract liabilities    |       | 1,960   | 6,424 | 2,521         | 3  | (1,235)   | 9,673          | 10,051         |
| Deferred tax assets                                    | C8    | 112     | 2,300 | 157           | 58   | -   | 2,627          | 4,315          |
| Current tax recoverable                                |       | 58      | 298   | 244           | 93   | (80)  | 613            | 440            |
|  |       | 595     | 492   | 1,558         | 31   | -   | 2,676          | 3,153          |

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|   |      |        |         |         |         |         |         |         |
|---|------|--------|---------|---------|---------|---------|---------|---------|
| Accrued investment income   |      |        |         |         |         |         |         |         |
| Other debtors   |      | 2,675  | 248     | 3,118   | 2,121   | (5,199) | 2,963   | 3,019   |
| Investment properties   |      | 5      | 5       | 16,487  | -       | -       | 16,497  | 14,646  |
| Investment in joint ventures and associates accounted for using the equity method |      | 912    | -       | 504     | -       | -       | 1,416   | 1,273   |
| Loans   | C3.3 | 1,317  | 9,630   | 5,986   | 109     | -       | 17,042  | 15,173  |
| Equity securities and portfolio holdings in unit trusts                           |      | 29,976 | 130,630 | 62,670  | 115     | -       | 223,391 | 198,552 |
| Debt securities   | C3.2 | 40,982 | 35,378  | 92,707  | 2,307   | -       | 171,374 | 170,458 |
| Derivative assets   |      | 113    | 1,611   | 2,954   | 123     | -       | 4,801   | 3,936   |
| Other investments   |      | -      | 848     | 4,774   | -       | -       | 5,622   | 5,465   |
| Deposits  |      | 1,291  | 43      | 9,540   | 362     | -       | 11,236  | 12,185  |
| Assets held for sale  |      | -      | -       | 38      | -       | -       | 38      | 4,589   |
| Cash and cash equivalents   |      | 1,934  | 1,658   | 5,808   | 1,290   | -       | 10,690  | 10,065  |
| Total assets  | C1   | 84,900 | 197,998 | 210,900 | 6,657   | (6,514) | 493,941 | 470,498 |
| Total equity  |      | 5,926  | 5,248   | 8,245   | (3,325) | -       | 16,094  | 14,667  |
| Liabilities   |      |        |         |         |         |         |         |         |
| Insurance contract liabilities  | C4.1 | 63,468 | 177,728 | 88,180  | 31      | (1,235) | 328,172 | 316,436 |
| Investment contract liabilities with discretionary participation features         | C4.1 | 337    | -       | 62,340  | -       | -       | 62,677  | 52,837  |
| Investment contract liabilities without discretionary participation features      | C4.1 | 328    | 2,996   | 17,069  | 1       | -       | 20,394  | 19,723  |
| Unallocated surplus of with-profits funds   | C4.1 | 3,474  | -       | 13,477  | -       | -       | 16,951  | 14,317  |
| Core structural borrowings of shareholder-financed operations                     | C6.1 | -      | 184     | -       | 6,096   | -       | 6,280   | 6,798   |
| Operational borrowings attributable to shareholder-financed operations            | C6.2 | 50     | 508     | 148     | 1,085   | -       | 1,791   | 2,317   |
| Borrowings attributable to with-profits operations                                | C6.2 | 10     | -       | 3,706   | -       | -       | 3,716   | 1,349   |
| Obligations under funding, securities   |      | -      | 4,304   | 1,358   | -       | -       | 5,662   | 5,031   |



|  |    |        |         |         |       |         |         |         |
|--|----|--------|---------|---------|-------|---------|---------|---------|
| lending and sale and repurchase agreements   |    |        |         |         |       |         |         |         |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds |    | 3,631  | -       | 5,243   | 15    | -       | 8,889   | 8,687   |
| Deferred tax liabilities   | C8 | 1,152  | 1,845   | 1,703   | 15    | -       | 4,715   | 5,370   |
| Current tax liabilities  |    | 122    | 47      | 377     | 71    | (80)    | 537     | 649     |
| Accruals deferred income and other liabilities   |    | 6,069  | 5,109   | 6,609   | 1,597 | (5,199) | 14,185  | 13,825  |
| Provisions   |    | 254    | 24      | 784     | 61    | -       | 1,123   | 947     |
| Derivative liabilities   |    | 79     | 5       | 1,661   | 1,010 | -       | 2,755   | 3,252   |
| Liabilities held for sale  | D1 | -      | -       | -       | -     | -       | -       | 4,293   |
| Total liabilities  | C1 | 78,974 | 192,750 | 202,655 | 9,982 | (6,514) | 477,847 | 455,831 |
| Total equity and liabilities   |    | 84,900 | 197,998 | 210,900 | 6,657 | (6,514) | 493,941 | 470,498 |

Note

(i)  
Unallocated to a segment includes central operations, Prudential Capital and Africa operations as per note B1.3.

C2

Analysis of segment statement of financial position by business type

C2.1

Asia

|  | 31 Dec 2017 £m        |                                    |                |       |       |                  |              | 31 Dec 2016* £m |       |
|--|-----------------------|------------------------------------|----------------|-------|-------|------------------|--------------|-----------------|-------|
|  | Insurance             |                                    |                |       | Total | Asset management | Eliminations | Total           | Total |
| Note   | With-profits business | Unit-linked assets and liabilities | Other business | Total |       |                  |              |                 |       |
| Assets   |                       |                                    |                |       |       |                  |              |                 |       |
| Goodwill   | -                     | -                                  | 244            | 244   | 61    | -                | 305          | 306             |       |
| Deferred acquisition costs and other intangible assets | 45                    | -                                  | 2,490          | 2,535 | 5     | -                | 2,540        | 2,319           |       |
| Property, plant and equipment                          | 86                    | -                                  | 36             | 122   | 3     | -                | 125          | 124             |       |
| Reinsurers' share of insurance                         | 76                    | -                                  | 1,884          | 1,960 | -     | -                | 1,960        | 1,539           |       |

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|   |       |        |        |        |        |      |      |        |        |
|---|-------|--------|--------|--------|--------|------|------|--------|--------|
| contract liabilities  |       |        |        |        |        |      |      |        |        |
| Deferred tax assets   | -     | -      | 102    | 102    | 10     | -    |      | 112    | 107    |
| Current tax recoverable   | 1     | 2      | 55     | 58     | -      | -    |      | 58     | 29     |
| Accrued investment income   | 230   | 53     | 277    | 560    | 35     | -    |      | 595    | 549    |
| Other debtors   | 1,823 | 169    | 648    | 2,640  | 67     | (32) |      | 2,675  | 2,662  |
| Investment properties   | -     | -      | 5      | 5      | -      | -    |      | 5      | 5      |
| Investment in joint ventures and associates accounted for using the equity method | -     | -      | 768    | 768    | 144    | -    |      | 912    | 825    |
| Loans   | C3.3  | 725    | -      | 592    | 1,317  | -    | -    | 1,317  | 1,303  |
| Equity securities and portfolio holdings in unit trusts                           |       | 14,995 | 13,199 | 1,759  | 29,953 | 23   | -    | 29,976 | 23,599 |
| Debt securities   | C3.2  | 24,432 | 3,507  | 13,043 | 40,982 | -    | -    | 40,982 | 36,546 |
| Derivative assets   |       | 82     | 5      | 26     | 113    | -    | -    | 113    | 47     |
| Deposits  |       | 246    | 511    | 499    | 1,256  | 35   | -    | 1,291  | 1,425  |
| Assets held for sale  | D1    | -      | -      | -      | -      | -    | -    | -      | 3,863  |
| Cash and cash equivalents   |       | 632    | 287    | 822    | 1,741  | 193  | -    | 1,934  | 2,157  |
| Total assets  |       | 43,373 | 17,733 | 23,250 | 84,356 | 576  | (32) | 84,900 | 77,405 |
| Total equity  |       | -      | -      | 5,525  | 5,525  | 401  | -    | 5,926  | 5,376  |
| Liabilities   |       |        |        |        |        |      |      |        |        |
| Insurance contract liabilities  |       | 33,861 | 15,935 | 13,672 | 63,468 | -    | -    | 63,468 | 54,417 |
| Investment contract liabilities with discretionary participation features         | C4.1  | 337    | -      | -      | 337    | -    | -    | 337    | 347    |
| Investment contract liabilities without discretionary participation features      | C4.1  | -      | 328    | -      | 328    | -    | -    | 328    | 254    |
|   |       | 3,474  | -      | -      | 3,474  | -    | -    | 3,474  | 2,667  |

|  |        |        |        |        |     |      |        |        |
|--|--------|--------|--------|--------|-----|------|--------|--------|
| Unallocated surplus of with-profits funds  |        |        |        |        |     |      |        |        |
| Operational borrowings attributable to shareholder-financed operations                     | -      | 7      | 43     | 50     | -   | -    | 50     | 19     |
| Borrowings attributable to with-profits operations   | 10     | -      | -      | 10     | -   | -    | 10     | 4      |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | 2,152  | 1,219  | 260    | 3,631  | -   | -    | 3,631  | 3,093  |
| Deferred tax liabilities   | 774    | 38     | 340    | 1,152  | -   | -    | 1,152  | 935    |
| Current tax liabilities  | 24     | -      | 81     | 105    | 17  | -    | 122    | 125    |
| Accruals, deferred income and other liabilities  | 2,620  | 206    | 3,207  | 6,033  | 68  | (32) | 6,069  | 5,916  |
| Provisions   | 62     | -      | 102    | 164    | 90  | -    | 254    | 229    |
| Derivative liabilities   | 59     | -      | 20     | 79     | -   | -    | 79     | 265    |
| Liabilities held for sale  | D1 -   | -      | -      | -      | -   | -    | -      | 3,758  |
| Total liabilities  | 43,373 | 17,733 | 17,725 | 78,831 | 175 | (32) | 78,974 | 72,029 |
| Total equity and liabilities   | 43,373 | 17,733 | 23,250 | 84,356 | 576 | (32) | 84,900 | 77,405 |

\*

The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

#### Note

The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. Assets and liabilities of other participating business are included in the column for 'Other business'.

#### C2.2

##### US

31 Dec 2017 £m

Insurance

31 Dec  
2016\*  
£m

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|   | Note | Variable annuity<br>separate account<br>assets and<br>liabilities | Fixed annuity,<br>GIC and other<br>business | Total   | Asset<br>management | Eliminations | Total   | Total   |
|---|------|---|---|---------|---------------------|--------------|---------|---------|
| Assets  |      |   |   |         |                     |              |         |         |
| Goodwill  | -    | -   | -   | -       | -                   | -            | -       | 16      |
| Deferred<br>acquisition costs<br>and other<br>intangible assets                             | -    | 8,216   | 8,216                                       | 3       | -                   | -            | 8,219   | 8,327   |
| Property, plant<br>and equipment  | -    | 209   | 209   | 5       | -                   | -            | 214     | 247     |
| Reinsurers' share<br>of insurance<br>contract liabilities                                   | -    | 6,424   | 6,424                                       | -       | -                   | -            | 6,424   | 7,224   |
| Deferred tax<br>assets  | -    | 2,218   | 2,218                                       | 82      | -                   | -            | 2,300   | 3,979   |
| Current tax<br>recoverable  | -    | 284   | 284   | 14      | -                   | -            | 298     | 101     |
| Accrued<br>investment<br>income   | -    | 444   | 444   | 48      | -                   | -            | 492     | 628     |
| Other debtors   | -    | 247   | 247   | 77      | (76)                | -            | 248     | 304     |
| Investment<br>properties  | -    | 5   | 5   | -       | -                   | -            | 5       | 6       |
| Loans   | C3.3 | -   | 9,630                                       | 9,630   | -                   | -            | 9,630   | 9,735   |
| Equity securities<br>and portfolio<br>holdings in unit<br>trusts                            |      | 130,528   | 102   | 130,630 | -                   | -            | 130,630 | 120,747 |
| Debt securities   | C3.2 | -   | 35,378                                      | 35,378  | -                   | -            | 35,378  | 40,745  |
| Derivative assets   | -    | -   | 1,611                                       | 1,611   | -                   | -            | 1,611   | 834     |
| Other investments   | -    | -   | 844   | 844     | 4                   | -            | 848     | 992     |
| Deposits  | -    | -   | -   | -       | 43                  | -            | 43      | 49      |
| Cash and cash<br>equivalents  | -    | -   | 1,224                                       | 1,224   | 434                 | -            | 1,658   | 1,135   |
| Total assets  |      | 130,528   | 66,836                                      | 197,364 | 710                 | (76)         | 197,998 | 195,069 |
| Total equity  |      | -   | 5,013                                       | 5,013   | 235                 | -            | 5,248   | 5,408   |
| Liabilities   |      |   |   |         |                     |              |         |         |
| Insurance contract<br>liabilities   |      | 130,528   | 47,200                                      | 177,728 | -                   | -            | 177,728 | 174,328 |
| Investment<br>contract liabilities<br>without<br>discretionary<br>participation<br>features | C4.1 | -   | 2,996                                       | 2,996   | -                   | -            | 2,996   | 3,298   |
| Core structural<br>borrowings of<br>shareholder-financed                                    | -    | -   | 184   | 184     | -                   | -            | 184     | 202     |

|  |         |        |         |     |      |         |         |
|--|---------|--------|---------|-----|------|---------|---------|
| operations   |         |        |         |     |      |         |         |
| Operational borrowings attributable to shareholder-financed operations                     | -       | 508    | 508     | -   | -    | 508     | 480     |
| Obligations under funding, securities lending and sale and repurchase agreements           | -       | 4,304  | 4,304   | -   | -    | 4,304   | 3,534   |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds | -       | -      | -       | -   | -    | -       | -       |
| Deferred tax liabilities   | -       | 1,844  | 1,844   | 1   | -    | 1,845   | 2,832   |
| Current tax liabilities  | -       | 46     | 46      | 1   | -    | 47      | -       |
| Accruals, deferred income and other liabilities  | -       | 4,728  | 4,728   | 457 | (76) | 5,109   | 4,920   |
| Provisions   | -       | 8      | 8       | 16  | -    | 24      | 3       |
| Derivative liabilities   | -       | 5      | 5       | -   | -    | 5       | 64      |
| Total liabilities  | 130,528 | 61,823 | 192,351 | 475 | (76) | 192,750 | 189,661 |
| Total equity and liabilities   | 130,528 | 66,836 | 197,364 | 710 | (76) | 197,998 | 195,069 |
| *  |         |        |         |     |      |         |         |

The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

## C2.3

## UK and Europe

|                      | 31 Dec 2017 £m         |                                    |                                    |                                      |       |                  | 31 Dec 2016*<br>£m |       |       |
|----------------------|------------------------|------------------------------------|------------------------------------|--------------------------------------|-------|------------------|--------------------|-------|-------|
|                      | Insurance              |                                    | Other funds and subsidiaries       |                                      | Total | Asset management | Eliminations       | Total | Total |
|                      | With-profits sub-funds | Unit-linked assets and liabilities | Unit-linked assets and liabilities | Annuity and other long-term business |       |                  |                    |       |       |
| By operating segment | Note                   | note (i)                           |                                    |                                      |       |                  |                    |       |       |
| Assets               |                        |                                    |                                    |                                      |       |                  |                    |       |       |

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|   |             |        |        |        |       |      |        |        |
|---|-------------|--------|--------|--------|-------|------|--------|--------|
| Goodwill  | 24          | -      | -      | 24     | 1,153 | -    | 1,177  | 1,306  |
| Deferred acquisition costs and other intangible assets                            | 100         | -      | 103    | 203    | 7     | -    | 210    | 132    |
| Property, plant and equipment   | 406         | -      | 37     | 443    | 4     | -    | 447    | 369    |
| Reinsurers' share of insurance contract liabilities                               | 1,269       | 133    | 1,119  | 2,521  | -     | -    | 2,521  | 2,590  |
| Deferred tax assets   | 70          | -      | 64     | 134    | 23    | -    | 157    | 174    |
| Current tax recoverable   | 63          | -      | 181    | 244    | -     | -    | 244    | 308    |
| Accrued investment income   | 892         | 107    | 553    | 1,552  | 6     | -    | 1,558  | 1,939  |
| Other debtors   | 1,553       | 76     | 624    | 2,253  | 941   | (76) | 3,118  | 3,233  |
| Investment properties   | 14,153      | 682    | 1,652  | 16,487 | -     | -    | 16,487 | 14,635 |
| Investment in joint ventures and associates accounted for using the equity method | 464         | -      | -      | 464    | 40    | -    | 504    | 448    |
| Loans   | C3.3 4,268  | -      | 1,718  | 5,986  | -     | -    | 5,986  | 3,572  |
| Equity securities and portfolio holdings in unit trusts                           | 47,173      | 15,369 | 9      | 62,551 | 119   | -    | 62,670 | 54,177 |
| Debt securities   | C3.2 50,661 | 6,711  | 35,335 | 92,707 | -     | -    | 92,707 | 90,796 |
| Derivative assets   | 2,420       | 8      | 526    | 2,954  | -     | -    | 2,954  | 2,927  |
| Other investments   | 4,744       | 11     | 1      | 4,756  | 18    | -    | 4,774  | 4,473  |
| Deposits  | 7,167       | 1,139  | 1,234  | 9,540  | -     | -    | 9,540  | 10,705 |
| Assets held for sale  | 38          | -      | -      | 38     | -     | -    | 38     | 726    |

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|  |      |         |        |        |         |       |      |         |         |
|--|------|---------|--------|--------|---------|-------|------|---------|---------|
| (ii)   |      |         |        |        |         |       |      |         |         |
| Cash and cash equivalents  |      | 4,096   | 693    | 576    | 5,365   | 443   | -    | 5,808   | 5,064   |
| Total assets   |      | 139,561 | 24,929 | 43,732 | 208,222 | 2,754 | (76) | 210,900 | 197,574 |
| Total equity   |      | -       | -      | 6,344  | 6,344   | 1,901 | -    | 8,245   | 7,832   |
| Liabilities  |      |         |        |        |         |       |      |         |         |
| Insurance contract liabilities   | C4.1 | 48,894  | 6,097  | 33,189 | 88,180  | -     | -    | 88,180  | 88,993  |
| Investment contract liabilities with discretionary participation features        | C4.1 | 62,323  | -      | 17     | 62,340  | -     | -    | 62,340  | 52,490  |
| Investment contract liabilities without discretionary participation features     | C4.1 | 5       | 17,048 | 16     | 17,069  | -     | -    | 17,069  | 16,171  |
| Unallocated surplus of with-profits funds  | C4.1 | 13,477  | -      | -      | 13,477  | -     | -    | 13,477  | 11,650  |
| Operational borrowings attributable to shareholder-financed operations           |      | -       | 4      | 123    | 127     | 21    | -    | 148     | 167     |
| Borrowings attributable to with-profits operations                               |      | 3,706   | -      | -      | 3,706   | -     | -    | 3,706   | 1,345   |
| Obligations under funding, securities lending and sale and repurchase agreements |      | 748     | -      | 610    | 1,358   | -     | -    | 1,358   | 1,497   |
| Net asset value attributable   |      | 3,409   | 1,667  | 167    | 5,243   | -     | -    | 5,243   | 5,594   |

|   |         |        |        |         |       |      |         |         |
|---|---------|--------|--------|---------|-------|------|---------|---------|
| to unit holders of consolidated unit trusts and similar funds |         |        |        |         |       |      |         |         |
| Deferred tax liabilities                                      | 1,410   | -      | 274    | 1,684   | 19    | -    | 1,703   | 1,592   |
| Current tax liabilities                                       | 119     | 76     | 138    | 333     | 44    | -    | 377     | 513     |
| Accruals deferred income and other liabilities                | 4,791   | 36     | 1,293  | 6,120   | 565   | (76) | 6,609   | 6,688   |
| Provisions  | 55      | -      | 525    | 580     | 204   | -    | 784     | 647     |
| Derivative liabilities  | 624     | 1      | 1,036  | 1,661   | -     | -    | 1,661   | 1,860   |
| Liabilities held for sale                                     | -       | -      | -      | -       | -     | -    | -       | 535     |
| (ii) Total liabilities  | 139,561 | 24,929 | 37,388 | 201,878 | 853   | (76) | 202,655 | 189,742 |
| Total equity and liabilities                                  | 139,561 | 24,929 | 43,732 | 208,222 | 2,754 | (76) | 210,900 | 197,574 |

\*

The 2016 comparative results have been re-presented from those previously published following reassessment of the Group's operating segments as described in note B1.3.

#### Note

##### (i)

Includes the Scottish Amicable Insurance Fund which, at 31 December 2017 have total assets and liabilities of £5,768 million (2016: £6,101 million). The PAC with-profits sub-fund (WPSF) mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The PAC with-profits fund includes £10.6 billion (2016: £11.2 billion) of non-profits annuities liabilities.

##### (ii)

The assets and liabilities held for sale for the UK and Europe insurance operations comprise the investment properties and consolidated venture investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the year end.

#### C3

##### Assets and liabilities

##### C3.1

##### Group assets and liabilities – measurement

##### (a)

##### Determination of fair value



The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments or by using quotations from independent third parties such as brokers and pricing services or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties or valued internally using standard market practices.

Other than the loans which have been designated at fair value through profit or loss, the loans and receivables have been shown net of provisions for impairment. The fair value of loans have been estimated from discounted cash flows expected to be received. The discount rate is updated for the market rate of interest where applicable.

The fair value of investment properties is based on market values as assessed by professionally qualified external valuers or by the Group's qualified surveyors.

The fair value of the subordinated and senior debt issued by the parent company is determined using quoted prices from independent third parties.

The fair value of financial liabilities (other than derivative financial instruments) is determined using discounted cash flows of the amounts expected to be paid.

(b)

Fair value measurement hierarchy of Group assets and liabilities

Assets and liabilities carried at fair value on the statement of financial position

The table below shows the assets and liabilities carried at fair value analysed by level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

Financial instruments at fair value

|   | 31 Dec 2017 £m                                     |  |  |        |
|---|--|--|--|--------|
|   | Level 1  | Level 2  | Level 3  | Total  |
|   | Quoted prices<br>(unadjusted)<br>in active markets | Valuation based<br>on significant<br>observable<br>market inputs | Valuation based<br>on significant<br>unobservable<br>market inputs |        |
| Analysis of<br>financial<br>investments, net of<br>derivative liabilities<br>by business type |  |  |  |        |
| With-profits  |  |  |  |        |
| Loans   | -  | -  | 2,023  | 2,023  |
| Equity securities<br>and portfolio<br>holdings in unit<br>trusts                              | 57,347   | 4,470  | 351  | 62,168 |
| Debt securities   | 29,143   | 45,602   | 348  | 75,093 |
| Other investments<br>(including<br>derivative assets)   | 68   | 3,638  | 3,540  | 7,246  |

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|  |         |         |       |         |
|--|---------|---------|-------|---------|
| Derivative liabilities   | (68)    | (615)   | -     | (683)   |
| Total financial investments, net of derivative liabilities                     | 86,490  | 53,095  | 6,262 | 145,847 |
| Percentage of total  | 60%     | 36%     | 4%    | 100%    |
| Unit-linked and variable annuity separate account                              |         |         |       |         |
| Equity securities and portfolio holdings in unit trusts                        | 158,631 | 457     | 10    | 159,098 |
| Debt securities  | 4,993   | 5,226   | -     | 10,219  |
| Other investments (including derivative assets)                                | 12      | 4       | 8     | 24      |
| Derivative liabilities   | -       | (1)     | -     | (1)     |
| Total financial investments, net of derivative liabilities                     | 163,636 | 5,686   | 18    | 169,340 |
| Percentage of total  | 97%     | 3%      | 0%    | 100%    |
| Non-linked shareholder-backed  |         |         |       |         |
| Loans  | -       | -       | 2,814 | 2,814   |
| Equity securities and portfolio holdings in unit trusts                        | 2,105   | 10      | 10    | 2,125   |
| Debt securities  | 21,443  | 64,313  | 306   | 86,062  |
| Other investments (including derivative assets)                                | 7       | 2,270   | 876   | 3,153   |
| Derivative liabilities   | -       | (1,559) | (512) | (2,071) |
| Total financial investments, net of derivative liabilities                     | 23,555  | 65,034  | 3,494 | 92,083  |
| Percentage of total  | 25%     | 71%     | 4%    | 100%    |
| Group total analysis, including other financial liabilities held at fair value |         |         |       |         |
| Group total  |         |         |       |         |
| Loans  | -       | -       | 4,837 | 4,837   |
| Equity securities and portfolio holdings in unit                               | 218,083 | 4,937   | 371   | 223,391 |

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|   |         |          |         |          |
|---|---------|----------|---------|----------|
| trusts  |         |          |         |          |
| Debt securities   | 55,579  | 115,141  | 654     | 171,374  |
| Other investments<br>(including derivative assets)  | 87      | 5,912    | 4,424   | 10,423   |
| Derivative liabilities  | (68)    | (2,175)  | (512)   | (2,755)  |
| Total financial investments, net of derivative liabilities                                      | 273,681 | 123,815  | 9,774   | 407,270  |
| Investment contract liabilities without discretionary participation features held at fair value | -       | (17,397) | -       | (17,397) |
| Borrowings attributable to with-profits operations  | -       | -        | (1,887) | (1,887)  |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds      | (4,836) | (3,640)  | (413)   | (8,889)  |
| Other financial liabilities held at fair value  | -       | -        | (3,031) | (3,031)  |
| Total financial instruments at fair value   | 268,845 | 102,778  | 4,443   | 376,066  |
| Percentage of total   | 72%     | 27%      | 1%      | 100%     |

31 Dec 2016 £m

| Level 1                                      | Level 2   | Level 3   | Total |
|--|---|---|-------|
| Quoted prices (unadjusted) in active markets | Valuation based on significant observable market inputs | Valuation based on significant unobservable market inputs |       |

Analysis of financial investments, net of derivative liabilities by business type

|   |        |       |     |        |
|---|--------|-------|-----|--------|
| With-profits  |        |       |     |        |
| Loans   | -      | -     | 27  | 27     |
| Equity securities and portfolio holdings in unit trusts | 45,181 | 3,669 | 690 | 49,540 |

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|  |         |         |       |         |
|--|---------|---------|-------|---------|
| Debt securities  | 26,227  | 43,880  | 690   | 70,797  |
| Other investments<br>(including<br>derivative assets)                                      | 58      | 3,357   | 3,443 | 6,858   |
| Derivative<br>liabilities  | (51)    | (1,025) | -     | (1,076) |
| Total financial<br>investments, net of<br>derivative liabilities                           | 71,415  | 49,881  | 4,850 | 126,146 |
| Percentage of total  | 56%     | 40%     | 4%    | 100%    |
| Unit-linked and<br>variable annuity<br>separate account                                    |         |         |       |         |
| Equity securities<br>and portfolio<br>holdings in unit<br>trusts                           | 146,637 | 374     | 22    | 147,033 |
| Debt securities  | 5,136   | 4,462   | -     | 9,598   |
| Other investments<br>(including<br>derivative assets)                                      | 6       | 8       | 5     | 19      |
| Derivative<br>liabilities  | (4)     | (24)    | -     | (28)    |
| Total financial<br>investments, net of<br>derivative liabilities                           | 151,775 | 4,820   | 27    | 156,622 |
| Percentage of total  | 97%     | 3%      | 0%    | 100%    |
| Non-linked<br>shareholder-backed   |         |         |       |         |
| Loans  | -       | 276     | 2,672 | 2,948   |
| Equity securities<br>and portfolio<br>holdings in unit<br>trusts                           | 1,966   | 3       | 10    | 1,979   |
| Debt securities  | 21,896  | 67,915  | 252   | 90,063  |
| Other investments<br>(including<br>derivative assets)                                      | -       | 1,492   | 1,032 | 2,524   |
| Derivative<br>liabilities  | (9)     | (1,623) | (516) | (2,148) |
| Total financial<br>investments, net of<br>derivative liabilities                           | 23,853  | 68,063  | 3,450 | 95,366  |
| Percentage of total  | 25%     | 71%     | 4%    | 100%    |
| Group total<br>analysis, including<br>other financial<br>liabilities held at<br>fair value |         |         |       |         |
| Group total  |         |         |       |         |

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|   |         |          |         |          |
|---|---------|----------|---------|----------|
| Loans   | -       | 276      | 2,699   | 2,975    |
| Equity securities and portfolio holdings in unit trusts   | 193,784 | 4,046    | 722     | 198,552  |
| Debt securities   | 53,259  | 116,257  | 942     | 170,458  |
| Other investments (including derivative assets)   | 64      | 4,857    | 4,480   | 9,401    |
| Derivative liabilities  | (64)    | (2,672)  | (516)   | (3,252)  |
| Total financial investments, net of derivative liabilities                                      | 247,043 | 122,764  | 8,327   | 378,134  |
| Investment contract liabilities without discretionary participation features held at fair value | -       | (16,425) | -       | (16,425) |
| Net asset value attributable to unit holders of consolidated unit trusts and similar funds      | (4,217) | (3,587)  | (883)   | (8,687)  |
| Other financial liabilities held at fair value  | -       | (385)    | (2,851) | (3,236)  |
| Total financial instruments at fair value   | 242,826 | 102,367  | 4,593   | 349,786  |
| Percentage of total   | 70%     | 29%      | 1%      | 100%     |

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £35,293 million (2016: £40,645 million) of debt securities classified as available-for-sale.

The Korea life business was classified as held for sale in 2016, with the sale completed in May 2017. The assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a net financial instruments balance of £3,200 million, primarily for equity securities and debt securities. Of this amount, £2,763 million was classified as level 1 and £437 million as level 2.

Investment properties at fair value

|      | 31 December £m  |  |   | Total  |
|------|---|--|---|--------|
|      | Level 1<br>Quoted prices<br>(unadjusted) in active<br>markets | Level 2<br>Valuation based on<br>significant observable market<br>inputs | Level 3<br>Valuation based on significant<br>unobservable market inputs |        |
| 2017 | -   | -  | 16,497  | 16,497 |

|      |   |   |        |        |
|------|---|---|--------|--------|
| 2016 | - | - | 14,646 | 14,646 |
|------|---|---|--------|--------|

(c)

## Valuation approach for level 2 fair valued assets and liabilities

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing service providers are used, a single valuation is obtained and applied.

When prices are not available from pricing services, quotes are sourced directly from brokers. Prudential seeks to obtain a number of quotes from different brokers so as to obtain the most comprehensive information available on their executability. Where quotes are sourced directly from brokers, the price used in the valuation is normally selected from one of the quotes based on a number of factors, including the timeliness and regularity of the quotes and the accuracy of the quotes considering the spreads provided. The selected quote is the one which best represents an executable quote for the security at the measurement date.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (eg either because the value is stale and/or the values are extremely diverse in range). These are usually securities which are distressed or that could be subject to a debt restructure or where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below in this note with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date. The techniques used require a number of assumptions relating to variables such as credit risk and interest rates. Examples of such variables include an average credit spread based on the corporate bond universe and the relevant duration of the asset being valued. Prudential determines the input assumptions based on the best available information at the measurement dates. Securities valued in such manner are classified as level 3 where these significant inputs are not based on observable market data.

Of the total level 2 debt securities of £115,141 million at 31 December 2017 (2016: £116,257 million), £13,910 million are valued internally (2016: £12,708 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d)

## Fair value measurements for level 3 fair valued assets and liabilities

## Valuation approach for level 3 fair valued assets and liabilities

## Financial instruments at fair value

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of

assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement that reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time a significant volume of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the disclosed value cannot be realised in immediate settlement of the financial instrument.

In accordance with the Group's risk management framework, the estimated fair value of derivative financial instruments valued internally using standard market practices are subject to assessment against external counterparties' valuations.

At 31 December 2017, the Group held £4,443 million (2016: £4,593 million) of net financial instruments at fair value within level 3. This represents 1 per cent (2016: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

The net financial instruments at fair value within level 3 at 31 December 2017 include £1,983 million of loans and a corresponding £1,887 million of borrowings held by a subsidiary of the Group's UK with-profits fund, attaching to a portfolio of buy-to-let mortgages and other loans financed largely by external third-party (non-recourse) borrowings (see note C3.3(c) for further details). The Group's exposure is limited to the investment held by the UK with-profits fund, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity. The most significant non observable inputs to the mortgage fair value are the level of future defaults and prepayments by the mortgage holders.

Also included within these amounts are loans of £2,512 million at 31 December 2017 (2016: £2,672 million), measured as the loan outstanding balance, plus accrued investment income, attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,664 million at 31 December 2017 (2016: £2,851 million) is also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(152) million (2016: £(179) million), the level 3 fair valued financial assets net of financial liabilities are £4,595 million (2016: £4,772 million). Of this amount, a net asset of £117 million (2016: net asset of £72 million) is internally valued, representing less than 0.1 per cent of the total fair valued financial assets net of financial liabilities (2016: less than 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net asset/liability are:

- (a) Debt securities of £500 million (2016: £422 million), which are either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured).
- (b) Private equity and venture investments in both debt and equity securities of £217 million (2016: £956 million) which are valued internally using discounted cash flows based on management information available for these investments. The significant unobservable inputs include the determination of expected future cash flows on the investments being valued, determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The valuation is performed in accordance with International Private Equity

and Venture Capital Association Valuation guidelines. These investments were principally held by consolidated investment funds that are managed on behalf of third parties.

Equity release mortgage loans of £366 million (2016: £276 million classified as level 2) which are valued internally using the discounted cash flow models. The inputs that are significant to the valuation of these

(c) investments are primarily the economic assumptions, being the discount rate (risk-free rate plus a liquidity premium) and property values. See below for the explanation of the transfer of these investments from level 2 into level 3 during the year.

Liabilities of £(403) million (2016: £(883) million) for the net asset value attributable to external unit holders in

(d) respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets.

Derivative liabilities of £(512) million (2016: £(516) million) which are valued internally using the discounted

(e) cash flow method in line with standard market practices but are subject to independent assessment against external counterparties' valuations.

(f) Other sundry individual financial investments of £81 million (2016: £93 million).

Of the internally valued net asset referred to above of £117 million (2016: net asset of £72 million):

(a) A net asset of £67 million (2016: £315 million) is held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments.

A net liability of £(184) million (2016: £(243) million) is held to support non-linked shareholder-backed business.

If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally

(b) decreased by 10 per cent, the change in valuation would be £18 million (2016: £24 million), which would reduce shareholders' equity by this amount before tax. All this amount passes through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit.

Other assets at fair value – investment properties

The investment properties of the Group are principally held by the UK and Europe insurance operations that are externally valued by professionally qualified external valuers using the Royal Institution of Chartered Surveyors (RICS) valuation standards. An 'income capitalisation' technique is predominantly applied for these properties. This technique calculates the value through the yield and rental value depending on factors such as the lease length, building quality, covenant and location. The variables used are compared to recent transactions with similar features to those of the Group's investment properties. As the comparisons are not with properties that are virtually identical to the Group's investment properties, adjustments are made by the valuers where appropriate to the variables used. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of the properties.

(e)

Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

During the year, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to level 2 of £1,389 million and transfers from level 2 to level 1 of £411 million. These transfers which relate to equity securities and debt securities arose to reflect the change in the observed valuation inputs and in certain cases, the change in the level of trading activities of the securities.

In addition, in 2017, the transfers into level 3 were a net liability of £80 million and the transfers out of level 3 were £92 million. The transfers into level 3 include a transfer from level 2 of a net liability of £83 million relating to the equity release mortgage loans of £302 million and a corresponding liability of £385 million held by the UK insurance operations that are carried at fair value through profit or loss. During 2017, the assumptions used within the



discounted cash flow model used to value these loans were refined to reflect developing market practice, including consideration of the Prudential Regulation Authority's industry-wide review in this area and resulting guidance. This refinement incorporates inputs relevant to determining the discount rate that are not market observable. As a result, the loans were reclassified as level 3. There was no material difference in the fair value of these loans recognised in 2017, arising from this change in the valuation model.

(f)

Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by Business Unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions. In addition the Group has minimum standards for independent price verification to ensure valuation accuracy is regularly independently verified. Adherence to this policy is monitored across the business units.

C3.2

Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities.

With the exception of certain debt securities for US insurance operations classified as 'available-for-sale' under IAS 39 as disclosed in notes C3.2 (b) to (d) below, the Group's debt securities are carried at fair value through profit or loss.

(a)

Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard and Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-. Debt securities with no external credit rating are classified as 'Other'.

|                               | 2017 £m |            |          |              |            |        | Total   |
|-------------------------------|---------|------------|----------|--------------|------------|--------|---------|
|                               | AAA     | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other  |         |
| Asia                          |         |            |          |              |            |        |         |
| With-profits                  | 2,504   | 10,641     | 3,846    | 3,234        | 1,810      | 2,397  | 24,432  |
| Unit-linked                   | 528     | 103        | 510      | 1,429        | 372        | 565    | 3,507   |
| Non-linked shareholder-backed | 990     | 2,925      | 3,226    | 2,970        | 1,879      | 1,053  | 13,043  |
| US                            |         |            |          |              |            |        |         |
| Non-linked shareholder-backed | 368     | 6,352      | 9,578    | 12,311       | 1,000      | 5,769  | 35,378  |
| UK and Europe                 |         |            |          |              |            |        |         |
| With-profits                  | 6,492   | 9,378      | 11,666   | 12,856       | 2,877      | 7,392  | 50,661  |
| Unit-linked                   | 670     | 2,732      | 1,308    | 1,793        | 91         | 117    | 6,711   |
| Non-linked shareholder-backed | 5,118   | 11,005     | 9,625    | 3,267        | 258        | 6,062  | 35,335  |
| Other operations              | 742     | 1,264      | 182      | 67           | 36         | 16     | 2,307   |
| Total debt securities         | 17,412  | 44,400     | 39,941   | 37,927       | 8,323      | 23,371 | 171,374 |

2016 £m

|  | AAA | AA+ to AA- | A+ to A- | BBB+ to BBB- | Below BBB- | Other | Total |
|--|-----|------------|----------|--------------|------------|-------|-------|
|--|-----|------------|----------|--------------|------------|-------|-------|

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|                               |        |        |        |        |       |        |         |
|-------------------------------|--------|--------|--------|--------|-------|--------|---------|
| Asia                          |        |        |        |        |       |        |         |
| With-profits                  | 3,183  | 8,522  | 3,560  | 2,996  | 1,887 | 1,713  | 21,861  |
| Unit-linked                   | 448    | 112    | 525    | 1,321  | 494   | 421    | 3,321   |
| Non-linked shareholder-backed | 1,082  | 2,435  | 2,864  | 2,388  | 1,680 | 915    | 11,364  |
| US                            |        |        |        |        |       |        |         |
| Non-linked shareholder-backed | 445    | 7,932  | 10,609 | 13,950 | 1,009 | 6,800  | 40,745  |
| UK and Europe                 |        |        |        |        |       |        |         |
| With-profits                  | 5,740  | 9,746  | 10,679 | 12,798 | 3,289 | 6,684  | 48,936  |
| Unit-linked                   | 461    | 2,660  | 1,158  | 1,699  | 212   | 87     | 6,277   |
| Non-linked shareholder-backed | 4,238  | 10,371 | 10,558 | 4,515  | 397   | 5,504  | 35,583  |
| Other operations              | 830    | 1,190  | 242    | 97     | 10    | 2      | 2,371   |
| Total debt securities         | 16,427 | 42,968 | 40,195 | 39,764 | 8,978 | 22,126 | 170,458 |

The credit ratings, information or data contained in this report which are attributed and specifically provided by S&P, Moody's and Fitch Solutions and their respective affiliates and suppliers ('Content Providers') is referred to here as the 'Content'. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability an investment or security and should not be relied on as investment advice.

Securities with credit ratings classified as 'Other' can be further analysed as follows:

|  |                            |                  | 2017 £m    | 2016 £m    |
|--|----------------------------|------------------|------------|------------|
| Asia - non-linked shareholder-backed   |                            |                  |            |            |
| Internally rated   |                            |                  |            |            |
| Government bonds   |                            |                  | 25         | 63         |
| Corporate bonds – rated as investment grade by local external ratings agencies     |                            |                  | 959        | 757        |
| Other  |                            |                  | 69         | 95         |
| Total Asia non-linked shareholder-backed   |                            |                  | 1,053      | 915        |
|  |                            |                  |            |            |
| US   | £m                         |                  |            |            |
|  | Mortgage-backed securities | Other securities | 2017 Total | 2016 Total |
| Implicit ratings of other US debt securities based on NAIC* valuations (see below) |                            |                  |            |            |
| NAIC 1   | 1,843                      | 2,075            | 3,918      | 4,759      |
| NAIC 2   | 22                         | 1,772            | 1,794      | 1,909      |

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|          |       |       |       |       |
|----------|-------|-------|-------|-------|
| NAIC 3-6 | 3     | 54    | 57    | 132   |
| Total US | 1,868 | 3,901 | 5,769 | 6,800 |

\*

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

|                     | 2017 £m | 2016 £m |
|---------------------|---------|---------|
| UK and Europe       |         |         |
| Internal ratings or |         |         |
| unrated             |         |         |
| AAA to A-           | 7,994   | 6,939   |
| BBB to B-           | 3,141   | 3,257   |
| Below B- or unrated | 2,436   | 2,079   |
| Total UK and Europe | 13,571  | 12,275  |

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a debt securities balance of £652 million.

(b)

Additional analysis of US insurance operations debt securities

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Corporate and government security and commercial loans: |         |         |
| Government  | 4,835   | 5,856   |
| Publicly traded and SEC Rule 144A securities*           | 22,849  | 25,992  |
| Non-SEC Rule 144A securities                            | 4,468   | 4,576   |
| Asset backed securities (see note (e))                  | 3,226   | 4,321   |
| Total US debt securities†                               | 35,378  | 40,745  |

\*

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

†

Debt securities for US operations included in the statement of financial position comprise:

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Available-for-sale   | 35,293  | 40,645  |
| Fair value through profit or loss:   |         |         |
| Securities held to back liabilities for funds withheld under reinsurance arrangement | 85      | 100     |
|  | 35,378  | 40,745  |

Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

(c)

Movements in unrealised gains and losses on Jackson available-for-sale securities

The movement in the statement of financial position value for debt securities classified as available-for-sale was from a net unrealised gain of £676 million to a net unrealised gain of £1,205 million as analysed in the table below.

|  | 2017   | Foreign<br>exchange<br>translation | Changes in<br>unrealised<br>appreciation** | 2016   |
|--|--------|------------------------------------|--|--------|
|  | £m     | £m                                 | £m   | £m     |
| Assets fair valued at below book value   |        |                                    |  |        |
| Book value*  | 6,325  |                                    |  | 14,617 |
| Unrealised gain (loss)   | (106)  | 33                                 | 536  | (675)  |
| Fair value (as included in statement of financial position)  | 6,219  |                                    |  | 13,942 |
| Assets fair valued at or above book value  |        |                                    |  |        |
| Book value*  | 27,763 |                                    |  | 25,352 |
| Unrealised gain (loss)   | 1,311  | (121)                              | 81   | 1,351  |
| Fair value (as included in statement of financial position)  | 29,074 |                                    |  | 26,703 |
| Total  |        |                                    |  |        |
| Book value*  | 34,088 |                                    |  | 39,969 |
| Net unrealised gain (loss)   | 1,205  | (88)                               | 617  | 676    |
| Fair value (as included in the footnote above in the overview table and the statement of financial position) | 35,293 |                                    |  | 40,645 |

\*

Book value represents cost/amortised cost of the debt securities.0

\*\*

Translated at the average rate of US\$1.2889: £1.00.

(d)

US debt securities classified as available-for-sale in an unrealised loss position

(i)

Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

|  | 2017 £m    |                 | 2016 £m    |                 |
|--|------------|-----------------|------------|-----------------|
|  | Fair value | Unrealised loss | Fair value | Unrealised loss |
| Between 90% and 100%                               | 6,170      | (95)            | 12,326     | (405)           |
| Between 80% and 90%                                | 36         | (6)             | 1,598      | (259)           |
| Below 80%:   |            |                 |            |                 |
| Residential mortgage-backed securities - sub-prime | -          | -               | -          | -               |
| Commercial mortgage-backed securities              | -          | -               | 8          | (3)             |
| Other asset-backed securities                      | 10         | (4)             | 9          | (8)             |
| Government bonds                                   | -          | -               | -          | -               |
| Corporates   | 3          | (1)             | 1          |                 |
|  | 13         | (5)             | 18         | (11)            |
| Total  | 6,219      | (106)           | 13,942     | (675)           |

(ii)

Unrealised losses by maturity of security

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|   | 2017 £m | 2016 £m |
|---|---------|---------|
| 1 year to 5 years                         | (7)     | (7)     |
| 5 years to 10 years                       | (41)    | (118)   |
| More than 10 years                        | (39)    | (510)   |
| Mortgage-backed and other debt securities | (19)    | (40)    |
| Total                                     | (106)   | (675)   |

(iii)

Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

|                    | 2017 £m              |                  |       | 2016 £m              |                  |       |
|--------------------|----------------------|------------------|-------|----------------------|------------------|-------|
|                    | Non-investment grade | Investment grade | Total | Non-investment grade | Investment grade | Total |
| Less than 6 months | (4)                  | (31)             | (35)  | (3)                  | (599)            | (602) |
| 6 months to 1 year | (1)                  | (4)              | (5)   | -                    | (2)              | (2)   |
| 1 year to 2 years  | -                    | (49)             | (49)  | (4)                  | (27)             | (31)  |
| 2 years to 3 years | (1)                  | (6)              | (7)   | (2)                  | (1)              | (3)   |
| More than 3 years  | -                    | (10)             | (10)  | (2)                  | (35)             | (37)  |
| Total              | (6)                  | (100)            | (106) | (11)                 | (664)            | (675) |

Further, the following table shows the age analysis as at 31 December, of the securities whose fair values were below 80 per cent of the book value:

| Age analysis         | 2017 £m    |                 | 2016 £m    |                 |
|----------------------|------------|-----------------|------------|-----------------|
|                      | Fair value | Unrealised loss | Fair value | Unrealised loss |
| Less than 3 months   | 2          | -               | 1          | -               |
| 3 months to 6 months | 1          | (1)             | -          | -               |
| More than 6 months   | 10         | (4)             | 17         | (11)            |
|                      | 13         | (5)             | 18         | (11)            |

(e)

Asset-backed securities

The Group's holdings in Asset-Backed Securities (ABS), which comprise Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Collateralised Debt Obligations (CDO) funds and other asset-backed securities, at 31 December are as follows:

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Shareholder-backed operations:                             |         |         |
| Asia operations note (i)                                   | 118     | 130     |
| US operations note (ii)                                    | 3,226   | 4,321   |
| UK and Europe operations (2017: 34% AAA, 16% AA)note (iii) | 1,070   | 1,464   |
| Other operationsnote (iv)                                  | 589     | 771     |
|  | 5,003   | 6,686   |
| With-profits operations:                                   |         |         |
| Asia operations note (i)                                   | 233     | 357     |
| UK and Europe operations (2017: 58% AAA, 10% AA)note (iii) | 5,658   | 5,177   |

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|       |        |        |
|-------|--------|--------|
|       | 5,891  | 5,534  |
| Total | 10,894 | 12,220 |

Notes

(i)

Asia operations

The Asia operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £233 million, 98 per cent (2016: 99 per cent) are investment grade.

(ii)

US operations

US operations' exposure to asset-backed securities at 31 December comprises:

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| <b>RMBS</b>  |         |         |
| Sub-prime (2017: 2% AAA, 4% AA, 3% A)  | 112     | 180     |
| Alt-A (2017: 3% AAA, 3% A)   | 126     | 177     |
| Prime including agency (2017: 70% AA, 4% A)  | 440     | 675     |
| CMBS (2017: 82% AAA, 15% AA, 1% A)   | 1,579   | 2,234   |
| CDO funds (2017: 49% AA, 31% A), including<br>£nil exposure to sub-prime                 | 28      | 50      |
| Other ABS (2017: 21% AAA, 14% AA, 50% A),<br>including £96 million exposure to sub-prime | 941     | 1,005   |
| Total  | 3,226   | 4,321   |

(iii)

UK and Europe operations

The majority of holdings of the shareholder-backed business are UK securities and relate to PAC's annuity business. Of the holdings of the with-profits operations, £1,913 million (2016: £1,623 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv)

Other operations

Other operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £589 million, 96 per cent (2016: 95 per cent) are graded AAA.

(f)

Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 31 December are analysed as follows:

Exposure to sovereign debts

|                | 2017 £m                        |                       | 2016 £m                        |                       |
|----------------|--------------------------------|-----------------------|--------------------------------|-----------------------|
|                | Shareholder-backed<br>business | With-profits<br>funds | Shareholder-backed<br>business | With-profits<br>funds |
| Italy          | 58                             | 63                    | 56                             | 61                    |
| Spain          | 34                             | 18                    | 33                             | 18                    |
| France         | 23                             | 38                    | 22                             | -                     |
| Germany*       | 693                            | 301                   | 573                            | 329                   |
| Other Eurozone | 82                             | 31                    | 83                             | 33                    |
| Total Eurozone | 890                            | 451                   | 767                            | 441                   |
| United Kingdom | 5,918                          | 3,287                 | 5,510                          | 2,868                 |

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|                           |        |        |        |        |
|---------------------------|--------|--------|--------|--------|
| United States**           | 5,078  | 10,156 | 6,861  | 9,008  |
| Other, predominantly Asia | 4,638  | 2,143  | 3,979  | 2,079  |
| Total                     | 16,524 | 16,037 | 17,117 | 14,396 |

\*

Including bonds guaranteed by the federal government.

\*\*The exposure to the United States sovereign debt comprises holdings of the US, UK and Europe and Asia insurance operations.

Exposure to bank debt securities

|                             | 2017 £m     |        |                         |                   |        |                               | 2017<br>Total<br>£m | 2016<br>Total<br>£m |
|-----------------------------|-------------|--------|-------------------------|-------------------|--------|-------------------------------|---------------------|---------------------|
|                             | Senior debt |        |                         | Subordinated debt |        |                               |                     |                     |
|                             | Covered     | Senior | Total<br>senior<br>debt | Tier 1            | Tier 2 | Total<br>subordinated<br>debt |                     |                     |
| Shareholder-backed business |             |        |                         |                   |        |                               |                     |                     |
| Italy                       | -           | -      | -                       | -                 | -      | -                             | 32                  |                     |
| Spain                       | 42          | 26     | 68                      | -                 | -      | -                             | 170                 |                     |
| France                      | 28          | 41     | 69                      | 10                | 7      | 17                            | 166                 |                     |
| Germany                     | 30          | -      | 30                      | -                 | 87     | 87                            | 124                 |                     |
| Netherlands                 | -           | 65     | 65                      | -                 | 6      | 6                             | 50                  |                     |
| Other Eurozone              | 15          | -      | 15                      | -                 | -      | -                             | 19                  |                     |
| Total Eurozone              | 115         | 132    | 247                     | 10                | 100    | 110                           | 561                 |                     |
| United Kingdom              | 695         | 374    | 1,069                   | 5                 | 308    | 313                           | 1,174               |                     |
| United States               | -           | 2,457  | 2,457                   | 1                 | 161    | 162                           | 2,684               |                     |
| Other, including Asia       | 17          | 652    | 669                     | 93                | 401    | 494                           | 1,018               |                     |
| Total                       | 827         | 3,615  | 4,442                   | 109               | 970    | 1,079                         | 5,437               |                     |

With-profits funds

|                       |       |       |       |     |       |       |       |
|-----------------------|-------|-------|-------|-----|-------|-------|-------|
| Italy                 | -     | 31    | 31    | -   | -     | -     | 62    |
| Spain                 | -     | 16    | 16    | -   | -     | -     | 213   |
| France                | 9     | 213   | 222   | -   | 64    | 64    | 213   |
| Germany               | 120   | 24    | 144   | -   | 36    | 36    | 114   |
| Netherlands           | -     | 188   | 188   | 5   | 6     | 11    | 202   |
| Other Eurozone        | -     | 27    | 27    | -   | -     | -     | 31    |
| Total Eurozone        | 129   | 499   | 628   | 5   | 106   | 111   | 835   |
| United Kingdom        | 859   | 592   | 1,451 | 3   | 484   | 487   | 1,396 |
| United States         | -     | 2,205 | 2,205 | 17  | 296   | 313   | 2,229 |
| Other, including Asia | 532   | 1,256 | 1,788 | 290 | 453   | 743   | 1,992 |
| Total                 | 1,520 | 4,552 | 6,072 | 315 | 1,339 | 1,654 | 6,452 |

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture operations.

C3.3

Loans portfolio

(a)

Overview of loans portfolio

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

—  
 Certain mortgage loans which have been designated at fair value through profit or loss of the UK and Europe insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and

—  
 Certain policy loans of the US insurance operations that are held to back liabilities for funds withheld under reinsurance arrangements and are also accounted on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

|                               | 2017 £m         |                |              |        | 2016 £m         |                |              |        |
|-------------------------------|-----------------|----------------|--------------|--------|-----------------|----------------|--------------|--------|
|                               | Mortgage loans* | Policy loans** | Other loans† | Total  | Mortgage loans* | Policy loans** | Other loans† | Total  |
| Asia                          |                 |                |              |        |                 |                |              |        |
| With-profits                  | -               | 613            | 112          | 725    | -               | 577            | 113          | 690    |
| Non-linked shareholder-backed | 177             | 216            | 199          | 592    | 179             | 226            | 208          | 613    |
| US                            |                 |                |              |        |                 |                |              |        |
| Non-linked shareholder-backed | 6,236           | 3,394          | -            | 9,630  | 6,055           | 3,680          | -            | 9,735  |
| UK and Europe                 |                 |                |              |        |                 |                |              |        |
| With-profits                  | 2,441           | 4              | 1,823        | 4,268  | 668             | 6              | 1,218        | 1,892  |
| Non-linked shareholder-backed | 1,681           | -              | 37           | 1,718  | 1,642           | -              | 38           | 1,680  |
| Other operations              | -               | -              | 109          | 109    | -               | -              | 563          | 563    |
| Total loans securities        | 10,535          | 4,227          | 2,280        | 17,042 | 8,544           | 4,489          | 2,140        | 15,173 |

\*

All mortgage loans are secured by properties.

\*\*

In the US £2,512 million (2016: £2,672 million) policy loans are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

†

Other loans held in UK with-profits funds are commercial loans and comprise mainly syndicated loans. The majority of other loans in shareholder-backed business in Asia are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(b)

Additional information on US mortgage loans

In the US, mortgage loans are all commercial mortgage loans that are secured by the following property types: industrial, multi-family residential, suburban office, retail or hotel. The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the same risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £12.6 million (2016: £12.4 million). The portfolio has a current estimated average loan to value of 55 per cent (2016: 59 per cent).

At 31 December 2017, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (2016: none).

(c)

Additional information on UK mortgage loans



During 2017, the UK with-profits fund invested in an entity that holds a portfolio of buy-to-let mortgage loans. The vehicle financed its acquisitions through the issue of debt instruments, largely to external parties, securitised upon the loans acquired. These third-party borrowings have no recourse to any other assets of the Group and the Group's exposure is limited to the amount invested by the UK with-profits fund.

By carrying value, 99.98 per cent of the £1,681 million (31 December 2016: 96.29 per cent of £1,642 million) mortgage loans held by the UK shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 31 per cent (31 December 2016: 30 per cent).

(d)

Loans held by other operations

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

|                       | 2017 £m | 2016 £m |
|-----------------------|---------|---------|
| Loans and receivables |         |         |
| internal ratings:     |         |         |
| AA+ to AA-            | 14      | 29      |
| A+ to A-              | -       | 100     |
| BBB+ to BBB-          | -       | 248     |
| BB+ to BB-            | 95      | 185     |
| B and other           | -       | 1       |
| Total                 | 109     | 563     |



## C4

## Policyholder liabilities and unallocated surplus

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position:

## C4.1

## Movement and duration of liabilities

## C4.1(a)

## Group overview

## (i)

## Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

|   | Insurance operations £m |                    |                                     | Total    |
|---|-------------------------|--------------------|-------------------------------------|----------|
|   | Asia<br>note<br>C4.1(b) | US<br>note C4.1(c) | UK and<br>Europe<br>note<br>C4.1(d) |          |
| At 1 January 2016   | 48,778                  | 138,913            | 152,893                             | 340,584  |
| Comprising:   |                         |                    |                                     |          |
| - Policyholder liabilities on the consolidated statement of financial position                  | 41,255                  | 138,913            | 142,350                             | 322,518  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 2,553                   | -                  | 10,543                              | 13,096   |
| - Group's share of policyholder liabilities of joint ventures and associate§                    | 4,970                   | -                  | -                                   | 4,970    |
| Reclassification of Korea life business as held for sale*                                       | (2,812)                 | -                  | -                                   | (2,812)  |
| Net flows:  |                         |                    |                                     |          |
| Premiums  | 9,639                   | 14,766             | 11,129                              | 35,534   |
| Surrenders  | (2,299)                 | (7,872)            | (6,821)                             | (16,992) |
| Maturities/deaths   | (1,558)                 | (1,696)            | (6,835)                             | (10,089) |
| Net flows   | 5,782                   | 5,198              | (2,527)                             | 8,453    |
| Shareholders' transfers post-tax  | (44)                    | -                  | (215)                               | (259)    |
| Investment-related items and other movements  | 2,005                   | 5,690              | 18,626                              | 26,321   |
| Foreign exchange translation differences  | 9,075                   | 27,825             | 527                                 | 37,427   |
| As at 31 December 2016/1 January 2017   | 62,784                  | 177,626            | 169,304                             | 409,714  |
| Comprising:   |                         |                    |                                     |          |
| - Policyholder liabilities on the consolidated statement of financial position¶                 | 53,716                  | 177,626            | 157,654                             | 388,996  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 2,667                   | -                  | 11,650                              | 14,317   |
| - Group's share of policyholder liabilities of joint ventures and associate§                    | 6,401                   | -                  | -                                   | 6,401    |
| Net flows:  |                         |                    |                                     |          |
| Premiums  | 11,863                  | 15,219             | 14,810                              | 41,892   |
| Surrenders  | (3,079)                 | (10,017)           | (6,939)                             | (20,035) |
| Maturities/deaths   | (1,909)                 | (2,065)            | (7,135)                             | (11,109) |

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|  |         |          |         |          |
|--|---------|----------|---------|----------|
| Net flows  | 6,875   | 3,137    | 736     | 10,748   |
| Shareholders' transfers post-tax   | (54)    | -        | (233)   | (287)    |
| Investment-related items and other movements   | 8,182   | 16,251   | 11,146  | 35,579   |
| Foreign exchange translation differences   | (3,948) | (16,290) | 113     | (20,125) |
| At 31 December 2017  | 73,839  | 180,724  | 181,066 | 435,629  |
| Comprising:  |         |          |         |          |
| - Policyholder liabilities on the consolidated statement of financial position¶<br>(excludes £32 million classified as unallocated to a segment) | 62,898  | 180,724  | 167,589 | 411,211  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position  | 3,474   | -        | 13,477  | 16,951   |
| - Group's share of policyholder liabilities of joint ventures and associate§   | 7,467   | -        | -       | 7,467    |
| Average policyholder liability balances†   |         |          |         |          |
| 2017   | 65,241  | 179,175  | 162,622 | 407,038  |
| 2016   | 51,765  | 158,270  | 150,003 | 360,038  |

\*

The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

†

Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the year and exclude unallocated surplus of with-profits funds.

§

The Group's investment in joint ventures and associates are accounted for on an equity method basis in the Group's balance sheet. The Group's share of the policyholder liabilities as shown above relate to life businesses in China, India and of the Takaful business in Malaysia.

¶

The policyholder liabilities of the Asia insurance operations of £62,898 million (2016: £53,716 million), shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK and Europe insurance operations of £1,235 million (2016: £1,302 million) to the Hong Kong with-profits business. Including this amount total Asia policyholder liabilities are £64,133 million (2016: £55,018 million).

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the year but exclude liabilities that have not been allocated to a reporting segment. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above will exclude any deductions for fees/charges. Claims (surrenders, maturities and deaths) represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

(ii)

Analysis of movements in policyholder liabilities for shareholder-backed business

|   | Shareholder-backed business £m |         |               |         |
|---|--------------------------------|---------|---------------|---------|
|   | Asia                           | US      | UK and Europe | Total   |
| At 1 January 2016   | 27,844                         | 138,913 | 52,824        | 219,581 |
| Reclassification of Korea life business as held for sale* | (2,812)                        | -       | -             | (2,812) |

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|  |         |         |         |          |
|--|---------|---------|---------|----------|
| Net flows:                                   |         |         |         |          |
| Premiums                                     | 4,749   | 14,766  | 1,842   | 21,357   |
| Surrenders                                   | (1,931) | (7,872) | (2,967) | (12,770) |
| Maturities/deaths                            | (732)   | (1,696) | (2,521) | (4,949)  |
| Net flowsnote (a)                            | 2,086   | 5,198   | (3,646) | 3,638    |
| Investment-related items and other movements | 1,116   | 5,690   | 6,980   | 13,786   |
| Foreign exchange translation differences     | 4,617   | 27,825  | -       | 32,442   |
| At 31 December 2016/1 January 2017           | 32,851  | 177,626 | 56,158  | 266,635  |

|  |        |         |        |         |
|--|--------|---------|--------|---------|
| Comprising:  |        |         |        |         |
| - Policyholder liabilities on the consolidated statement of financial position       | 26,450 | 177,626 | 56,158 | 260,234 |
| - Group's share of policyholder liabilities relating to joint ventures and associate | 6,401  | -       | -      | 6,401   |

|  |         |          |         |          |
|--|---------|----------|---------|----------|
| Net flows:                                   |         |          |         |          |
| Premiums                                     | 6,064   | 15,219   | 2,283   | 23,566   |
| Surrenders                                   | (2,755) | (10,017) | (2,433) | (15,205) |
| Maturities/deaths                            | (1,008) | (2,065)  | (2,571) | (5,644)  |
| Net flowsnote (a)                            | 2,301   | 3,137    | (2,721) | 2,717    |
| Investment-related items and other movements | 3,797   | 16,251   | 2,930   | 22,978   |
| Foreign exchange translation differences     | (1,547) | (16,290) | -       | (17,837) |
| At 31 December 2017                          | 37,402  | 180,724  | 56,367  | 274,493  |

|  |        |         |        |         |
|--|--------|---------|--------|---------|
| Comprising:  |        |         |        |         |
| - Policyholder liabilities on the consolidated statement of financial position (excludes £32 million classified as unallocated to a segment) | 29,935 | 180,724 | 56,367 | 267,026 |
| - Group's share of policyholder liabilities relating to joint ventures and associate   | 7,467  | -       | -      | 7,467   |

\*

The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

Note

(a)

Including net flows of the Group's insurance joint ventures and associate.

C4.1(b)

Asia insurance operations

(i)

Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the year to the end of the year is as follows:

|                   | With-profits<br>business<br>£m | Unit-linked<br>liabilities<br>£m | Other<br>business<br>£m | Total<br>£m |
|-------------------|--------------------------------|----------------------------------|-------------------------|-------------|
| At 1 January 2016 | 20,934                         | 15,966                           | 11,878                  | 48,778      |
| Comprising:       | 18,381                         | 13,355                           | 9,519                   | 41,255      |

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|   |         |         |        |         |
|---|---------|---------|--------|---------|
| - Policyholder liabilities on the consolidated statement of financial position                  |         |         |        |         |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 2,553   | -       | -      | 2,553   |
| - Group's share of policyholder liabilities relating to joint ventures and associate‡           | -       | 2,611   | 2,359  | 4,970   |
| Reclassification of Korea life business as held for sale*                                       | -       | (2,187) | (625)  | (2,812) |
| <b>Premiums</b>   |         |         |        |         |
| New business  | 1,701   | 921     | 767    | 3,389   |
| In-force  | 3,189   | 1,447   | 1,614  | 6,250   |
|   | 4,890   | 2,368   | 2,381  | 9,639   |
| Surrenders note (c)   | (368)   | (1,641) | (290)  | (2,299) |
| Maturities/deaths   | (826)   | (78)    | (654)  | (1,558) |
| Net flows note (b)  | 3,696   | 649     | 1,437  | 5,782   |
| Shareholders' transfers post-tax  | (44)    | -       | -      | (44)    |
| Investment-related items and other movements  | 889     | 621     | 495    | 2,005   |
| Foreign exchange translation differences note (a)   | 4,458   | 2,458   | 2,159  | 9,075   |
| At 31 December 2016/1 January 2017  | 29,933  | 17,507  | 15,344 | 62,784  |
| Comprising:   |         |         |        |         |
| - Policyholder liabilities on the consolidated statement of financial position                  | 27,266  | 14,289  | 12,161 | 53,716  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 2,667   | -       | -      | 2,667   |
| - Group's share of policyholder liabilities relating to joint ventures and associate‡           | -       | 3,218   | 3,183  | 6,401   |
| <b>Premiums</b>   |         |         |        |         |
| New business  | 1,143   | 1,298   | 999    | 3,440   |
| In-force  | 4,656   | 1,637   | 2,130  | 8,423   |
|   | 5,799   | 2,935   | 3,129  | 11,863  |
| Surrenders note (c)   | (324)   | (2,288) | (467)  | (3,079) |
| Maturities/deaths   | (901)   | (150)   | (858)  | (1,909) |
| Net flows note (b)  | 4,574   | 497     | 1,804  | 6,875   |
| Shareholders' transfers post-tax  | (54)    | -       | -      | (54)    |
| Investment-related items and other movements note (d)   | 4,385   | 2,830   | 967    | 8,182   |
| Foreign exchange translation differences note (a)   | (2,401) | (807)   | (740)  | (3,948) |
| At 31 December 2017 note (b)  | 36,437  | 20,027  | 17,375 | 73,839  |
| Comprising:   |         |         |        |         |
| - Policyholder liabilities on the consolidated statement of financial position§                 | 32,963  | 16,263  | 13,672 | 62,898  |
| - Unallocated surplus of with-profits funds on the consolidated statement of financial position | 3,474   | -       | -      | 3,474   |
| - Group's share of policyholder liabilities relating to joint ventures and associate‡           | -       | 3,764   | 3,703  | 7,467   |
| Average policyholder liability balances†  |         |         |        |         |
| 2017  | 30,115  | 18,767  | 16,359 | 65,241  |
| 2016  | 22,823  | 15,643  | 13,299 | 51,765  |

\*

The reclassification of Korea life business as held for sale reflects the value of policyholder liabilities held at 1 January 2016. No other amounts are shown within the 2016 analysis above in respect of Korea.

†

Averages have been based on opening and closing balances and adjusted for acquisitions and disposals in the year and exclude unallocated surplus of with-profits funds.

‡

The Group's investment in joint ventures and associate are accounted for on an equity method basis and the Group's share of the policyholder liabilities as shown above relate to the life businesses in China, India and of the Takaful business in Malaysia.

§

The policyholder liabilities of the with-profits business of £32,963 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by UK and Europe insurance operations of £1,235 million to the Hong Kong with-profits business (2016: £1,302 million). Including this amount the Asia with-profits policyholder liabilities are £34,198 million.

#### Notes

(a)

Movements in the year have been translated at the average exchange rates for the year. The closing balance has been translated at the closing spot rates as at the end of the year. Differences upon retranslation are included in foreign exchange translation differences.

(b)

Net flows have increased by £1,093 million to £6,875 million in 2017 predominantly reflecting continued growth of the in-force book and increased flows from new business.

(c)

Investment-related items and other movements for 2017 principally represent equity market gains and falls in bond yields during the year, in a number of business units with the greatest impact being on with-profits and unit-linked business.

(ii)

#### Duration of liabilities

The table below shows the carrying value of policyholder liabilities and the maturity profile of the cash flows on a discounted basis for 2017 and 2016, taking account of expected future premiums and investment returns:

|                          | 2017 £m | 2016 £m |
|--------------------------|---------|---------|
| Policyholder liabilities | 62,898  | 53,716  |
| Expected maturity:       | %       | %       |
| 0 to 5 years             | 21      | 23      |
| 5 to 10 years            | 19      | 20      |
| 10 to 15 years           | 16      | 16      |
| 15 to 20 years           | 12      | 11      |
| 20 to 25 years           | 10      | 9       |
| Over 25 years            | 22      | 21      |

#### C4.1(c)

##### US insurance operations

(i)

#### Analysis of movements in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the year to the end of the year is as follows:

## US insurance operations

|  | Variable<br>annuity<br>separate<br>account<br>liabilities<br>£m | Fixed annuity,<br>GIC and other<br>business<br>£m | Total<br>£m |
|--|---|---|-------------|
| At 1   |   |   |             |
| January 2016                                 | 91,022  | 47,891  | 138,913     |
| Premiums                                     | 10,232  | 4,534   | 14,766      |
| Surrenders                                   | (5,036)   | (2,836)   | (7,872)     |
| Maturities                                   | (807)   | (893)   | (1,696)     |
| Net flows                                    | 4,393   | 805   | 5,198       |
| note (b)                                     |   |   |             |
| Transfers from general to separate account   | 1,164   | (1,164)   | -           |
| Investment-related items and other movements | 5,246   | 444   | 5,690       |
| Foreign exchange translation differences     | 18,586  | 9,239   | 27,825      |
| note (a)                                     |   |   |             |
| At 31  |   |   |             |
| December 2016/1                              | 120,411   | 57,215  | 177,626     |
| January 2017                                 |   |   |             |
| Premiums                                     | 11,529  | 3,690   | 15,219      |
| Surrenders                                   | (6,997)   | (3,020)   | (10,017)    |
| Maturities                                   | (1,036)   | (1,039)   | (2,065)     |
| Net flows                                    | 3,506   | (369)   | 3,137       |
| note (b)                                     |   |   |             |
| Transfers from general to                    | 2,096   | (2,096)   | -           |



|   |          |         |          |
|---|----------|---------|----------|
| separate<br>account                               |          |         |          |
| Investment-related<br>items<br>and<br>other       | 15,956   | 295     | 16,251   |
| movements<br>note<br>(c)                          |          |         |          |
| Foreign<br>exchange<br>translation<br>differences | (11,441) | (4,849) | (16,290) |
| note<br>(a)                                       |          |         |          |
| At 31<br>December<br>2017                         | 30,528   | 50,196  | 180,724  |
| Average<br>policyholder<br>liability<br>balances* |          |         |          |
| 2017  | 125,469  | 53,706  | 179,175  |
| 2016  | 105,717  | 52,553  | 158,270  |

\*  
Averages have been based on opening and closing balances.

#### Notes

(a)

Movements in the year have been translated at an average rate of US\$1.29/£1.00 (2016: US\$1.35/£1.00). The closing balances have been translated at closing rate of US\$1.35/£1.00 (2016: US\$1.24/£1.00). Differences upon retranslation are included in foreign exchange translation differences.

(b)

Net flows were £3,137 million in 2017, reflecting continued strong inflows into the variable annuity business.

(c)

Positive investment-related items and other movements in variable annuity separate account liabilities of £15,956 million for 2017 primarily reflects the increases in equities and bond values during the year. Fixed annuity, GIC and other business investment and other movements of £295 million primarily reflect the increase in guarantee reserve in the year.

(ii)

#### Duration of liabilities

The table below shows the carrying value of policyholder liabilities and maturity profile of the cash flows on a discounted basis for 2017 and 2016:

| 2017  |   |       | 2016  |   |       |
|---|---|-------|---|---|-------|
| Fixed annuity and other<br>business (including GICs and<br>similar contracts) | Variable<br>annuity<br>separate<br>account<br>liabilities | Total | Fixed annuity and other<br>business (including GICs and<br>similar contracts) | Variable<br>annuity<br>separate<br>account<br>liabilities | Total |

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|                          | £m     | £m      | £m      | £m     | £m      | £m      |
|--------------------------|--------|---------|---------|--------|---------|---------|
| Policyholder liabilities | 50,196 | 130,528 | 180,724 | 57,215 | 120,411 | 177,626 |
|                          | %      | %       | %       | %      | %       | %       |
| Expected maturity:       |        |         |         |        |         |         |
| 0 to 5 years             | 50     | 42      | 44      | 49     | 43      | 45      |
| 5 to 10 years            | 25     | 29      | 28      | 26     | 29      | 28      |
| 10 to 15 years           | 12     | 15      | 14      | 11     | 14      | 14      |
| 15 to 20 years           | 7      | 8       | 8       | 7      | 8       | 7       |
| 20 to 25 years           | 3      | 4       | 4       | 3      | 4       | 3       |
| Over 25 years            | 3      | 2       | 2       | 4      | 2       | 3       |

C4.1(d)

UK and Europe insurance operations

(i)

Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK and Europe insurance operations from the beginning of the year to the end of the year is as follows:

|  | With-profits sub-funds** | Shareholder-backed funds and subsidiaries<br>Unit-linked liabilities | Annuity and other long-term business | Total   |
|--|--------------------------|--|--------------------------------------|---------|
|  | £m                       | £m   | £m                                   | £m      |
| At 1 January 2016                            | 100,069                  | 21,442   | 31,382                               | 152,893 |
| Comprising:                                  |                          |  |                                      |         |
| - Policyholder liabilities                   | 89,526                   | 21,442   | 31,382                               | 142,350 |
| - Unallocated surplus of with-profits funds  | 10,543                   | -  | -                                    | 10,543  |
| Premiums                                     | 9,287                    | 1,227  | 615                                  | 11,129  |
| Surrenders                                   | (3,854)                  | (2,889)  | (78)                                 | (6,821) |
| Maturities/deaths                            | (4,314)                  | (583)  | (1,938)                              | (6,835) |
| Net flows note (a)                           | 1,119                    | (2,245)  | (1,401)                              | (2,527) |
| Shareholders' transfers post-tax             | (215)                    | -  | -                                    | (215)   |
| Switches                                     | (152)                    | 152  | -                                    | -       |
| Investment-related items and other movements | 11,798                   | 2,770  | 4,058                                | 18,626  |
| Foreign exchange translation differences     | 527                      | -  | -                                    | 527     |
| At 31 December 2016/1 January 2017           | 113,146                  | 22,119   | 34,039                               | 169,304 |
| Comprising:                                  |                          |  |                                      |         |
| - Policyholder liabilities                   | 101,496                  | 22,119   | 34,039                               | 157,654 |
| - Unallocated surplus of with-profits funds  | 11,650                   | -  | -                                    | 11,650  |
| Premiums                                     | 12,527                   | 1,923  | 360                                  | 14,810  |
| Surrenders                                   | (4,506)                  | (2,342)  | (91)                                 | (6,939) |
| Maturities/deaths                            | (4,564)                  | (612)  | (1,959)                              | (7,135) |
| Net flows note (a)                           | 3,457                    | (1,031)  | (1,690)                              | 736     |
| Shareholders' transfers post-tax             | (233)                    | -  | -                                    | (233)   |

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|   |         |        |        |         |
|---|---------|--------|--------|---------|
| Switches  | (192)   | 192    | -      | -       |
| Investment-related items and other movements note (b) | 8,408   | 1,865  | 873    | 11,146  |
| Foreign exchange translation differences              | 113     | -      | -      | 113     |
| At 31 December 2017                                   | 124,699 | 23,145 | 33,222 | 181,066 |
| Comprising:   |         |        |        |         |
| - Policyholder liabilities                            | 111,222 | 23,145 | 33,222 | 167,589 |
| - Unallocated surplus of with-profits funds           | 13,477  | -      | -      | 13,477  |
| Average policyholder liability balances*              |         |        |        |         |
| 2017  | 106,359 | 22,632 | 33,631 | 162,622 |
| 2016  | 95,511  | 21,781 | 32,711 | 150,003 |

\*Averages have been based on opening and closing balances and exclude unallocated surplus of with-profits funds.

\*\*Includes the Scottish Amicable Insurance Fund.

Notes

(a)

Net flows improved from negative £(2,527) million in 2016 to positive £736 million in 2017, due primarily to higher premium flows into our with-profits funds following increased sales into with-profits savings and retirement products. This has been offset by lower premiums into our annuity business following our withdrawal from this market in the UK. The level of inflows/outflows for unit-linked business remains subject to annual variation as it is driven by corporate pension schemes with transfers in or out from a small number of schemes influencing the level of flows in the period.

(b)

Investment-related items and other movements of £11,146, million principally comprise investment return attributable to policyholders earned in the period reflecting favourable equity market movements.

(ii)

Duration of liabilities

The following tables show the carrying value of the policyholder liabilities and the maturity profile of the cash flows, on a discounted basis for 2017 and 2016:

|                          | 2017 £m               |                      |         |   |                             |        |                     |                       |        |         |
|--------------------------|-----------------------|----------------------|---------|---|-----------------------------|--------|---------------------|-----------------------|--------|---------|
|                          | With-profits business |                      |         | Annuity business<br>(Insurance contracts) |                             |        | Other               |                       |        | Total   |
|                          | Insurance contracts   | Investment contracts | Total   | Non-profit annuities within WPSF          | Shareholder -backed annuity | Total  | Insurance contracts | Investments contracts | Total  |         |
| Policyholder liabilities | 38,285                | 62,328               | 100,613 | 10,609                                    | 32,572                      | 43,181 | 6,714               | 17,081                | 23,795 | 167,589 |
|                          | 2017 %                |                      |         |   |                             |        |                     |                       |        |         |
| Expected maturity:       |                       |                      |         |   |                             |        |                     |                       |        |         |
| 0 to 5 years             | 33%                   | 37%                  | 36%     | 31%                                       | 26%                         | 27%    | 41%                 | 31%                   | 34%    | 34%     |
| 5 to 10 years            | 23%                   | 27%                  | 25%     | 24%                                       | 23%                         | 23%    | 26%                 | 22%                   | 23%    | 25%     |
| 10 to 15 years           | 16%                   | 17%                  | 17%     | 17%                                       | 18%                         | 18%    | 15%                 | 18%                   | 17%    | 17%     |
| 15 to 20 years           | 11%                   | 10%                  | 10%     | 11%                                       | 13%                         | 13%    | 9%                  | 13%                   | 12%    | 11%     |

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|                          |         |        |        |        |        |        |       |        |        |         |
|--------------------------|---------|--------|--------|--------|--------|--------|-------|--------|--------|---------|
| 20 to 25 years           | 7%      | 4%     | 5%     | 7%     | 9%     | 9%     | 5%    | 8%     | 7%     | 6%      |
| over 25 years            | 10%     | 5%     | 7%     | 10%    | 11%    | 10%    | 4%    | 8%     | 7%     | 7%      |
|                          | 2016 £m |        |        |        |        |        |       |        |        |         |
| Policyholder liabilities | 37,848  | 52,495 | 90,343 | 11,153 | 33,881 | 45,034 | 6,111 | 16,166 | 22,277 | 157,654 |
|                          | 2016 %  |        |        |        |        |        |       |        |        |         |
| Expected maturity:       |         |        |        |        |        |        |       |        |        |         |
| 0 to 5 years             | 37%     | 37%    | 37%    | 29%    | 25%    | 26%    | 40%   | 34%    | 37%    | 34%     |
| 5 to 10 years            | 23%     | 29%    | 26%    | 24%    | 22%    | 23%    | 23%   | 23%    | 23%    | 25%     |
| 10 to 15 years           | 15%     | 16%    | 16%    | 18%    | 18%    | 18%    | 12%   | 17%    | 15%    | 17%     |
| 15 to 20 years           | 9%      | 10%    | 10%    | 12%    | 14%    | 13%    | 7%    | 12%    | 10%    | 11%     |
| 20 to 25 years           | 7%      | 4%     | 5%     | 7%     | 9%     | 9%     | 4%    | 7%     | 6%     | 6%      |
| over 25 years            | 9%      | 4%     | 6%     | 10%    | 12%    | 11%    | 14%   | 7%     | 9%     | 7%      |

– The cash flow projections of expected benefit payments used in the maturity profile table above are from value of in-force business and exclude the value of future new business, including future vesting of internal pension contracts.

– Benefit payments do not reflect the pattern of bonuses and shareholder transfers in respect of the with-profits business.

– Shareholder-backed annuity business includes the ex-PRIL and the legacy PAC shareholder annuity business.

– Investment contracts under 'Other' comprise certain unit-linked and similar contracts accounted for under IAS 39 and IAS 18.

– For business with no maturity term included within the contracts; for example, with-profits investment bonds such as Prudence Bonds, an assumption is made as to likely duration based on prior experience.

C5

Intangible assets

C5(a)

Goodwill

| Cost  | Attributable to: |              | 2017 £m | 2016 £m |
|---|------------------|--------------|---------|---------|
|   | Shareholders     | With-profits |         |         |
| At beginning of year  | 1,475            | 153          | 1,628   | 1,648   |
| Disposals/reclassifications to held for sale                  | (16)             | (139)        | (155)   | (56)    |
| Additional consideration paid on previously acquired business | -                | 9            | 9       | 7       |
| Exchange differences  | (1)              | 1            | -       | 29      |
| Net book amount at end of year                                | 1,458            | 24           | 1,482   | 1,628   |

Goodwill comprises:

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| M&G   | 1,153   | 1,153   |
| Other – attributable to shareholders                          | 305     | 322     |
| Goodwill – attributable to shareholders                       | 1,458   | 1,475   |
| Venture fund investments – attributable to with-profits funds | 24      | 153     |
|   | 1,482   | 1,628   |

Other goodwill attributable to shareholders represents amounts allocated to entities in Asia and until August 2017 the US operations. These goodwill amounts are not individually material.

C5(b)

Deferred acquisition costs and other intangible assets

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Deferred acquisition costs and other intangible assets attributable to shareholder        | 10,866  | 10,755  |
| Deferred acquisition costs and other intangible assets attributable to with-profits funds | 145     | 52      |
| Total of deferred acquisition costs and other intangible assets                           | 11,011  | 10,807  |

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Deferred acquisition costs related to insurance contracts as classified under IFRS 4   | 9,170   | 9,114   |
| Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4 | 63      | 64      |
|  | 9,233   | 9,178   |
| Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)  | 36      | 43      |
| Distribution rights and other intangibles  | 1,597   | 1,534   |
|  | 1,633   | 1,577   |
| Total of deferred acquisition costs and other intangible assets  | 10,866  | 10,755  |

|  | 2017 £m                    |              |                         |                      |   | 2016 £m |       |
|--|----------------------------|--------------|-------------------------|----------------------|---|---------|-------|
|  | Deferred acquisition costs |              |                         |                      |   | Total   | Total |
|  | Asia insurance             | US insurance | UK and Europe insurance | All asset management | PVIF and other intangibles <sup>1</sup> |         |       |
| Balance at 1 January                               | 788                        | 8,303        | 79                      | 8                    | 1,577                                   | 10,755  | 8,422 |
| Additions  | 331                        | 663          | 14                      | 3                    | 229                                     | 1,240   | 1,179 |
| Amortisation to the income statement: <sup>2</sup> |                            |              |                         |                      |   |         |       |
| Operating profit                                   | (133)                      | (403)        | (10)                    | (5)                  | (158)                                   | (709)   | (686) |
| Non-operating profit                               | -                          | 462          | -                       | -                    | (7)                                     | 455     | 557   |
|  | (133)                      | 59           | (10)                    | (5)                  | (165)                                   | (254)   | (129) |
| Disposals and transfers -                          | -                          | -            | -                       | -                    | -                                       | -       | (268) |
| Exchange differences and other movements           | (40)                       | (752)        | 1                       | -                    | (8)                                     | (799)   | 1,475 |

|   |     |       |    |   |       |        |        |
|---|-----|-------|----|---|-------|--------|--------|
| Amortisation of DAC related to net unrealised valuation movements on the US insurance operation's available-for-sale securities recognised within other comprehensive income <sup>2</sup> | -   | (76)  | -  | - | -     | (76)   | 76     |
| Balance at 31 December  | 946 | 8,197 | 84 | 6 | 1,633 | 10,866 | 10,755 |

1

PVIF and other intangibles includes amounts in relation to software rights with additions of £38 million, amortisation of £32 million, foreign exchange losses of £5 million and a balance at 31 December 2017 of £67 million.

2

Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with the emergence of actual and expected gross profits which are determined using an assumption for long-term investment returns for the separate account of 7.4 per cent (2016: 7.4 per cent) (gross of asset management fees and other charges to policyholders, but net of external fund management fees). The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items (see note C7.3(iv)).

#### Note

PVIF and other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time.

#### US insurance operations

The DAC amount in respect of US insurance operations comprises amounts in respect of:

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Variable annuity business  | 8,208   | 7,844   |
| Other business   | 278     | 696     |
| Cumulative shadow DAC (for unrealised gains booked in other comprehensive income)* | (289)   | (237)   |
| Total DAC for US operations  | 8,197   | 8,303   |

\*

Consequent upon the positive unrealised valuation movement in 2017 of £617 million (2016: negative unrealised valuation movement of £28 million), there is a loss of £76 million (2016: a gain of £76 million) for altered shadow DAC amortisation booked within other comprehensive income. These adjustments reflect movement from period to period, in the changes to the pattern of reported gross profits that would have occurred if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 31 December 2017, the cumulative shadow DAC balance as shown in the table above was negative £289 million (2016: negative £237 million).

#### Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

- (i)  
A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
- (ii)  
An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In 2017, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £86 million (2016: credit for decelerated amortisation of £93 million). The 2017 amount primarily reflects the impact of the positive separate account performance, which is higher than the assumed level for the year.

The application of the mean reversion formula, has the effect of dampening the impact of equity market movements on DAC amortisation while the mean reversion assumption lies within the corridor. In 2018, it would take approximate movements in separate account values of more than either negative 32 per cent or positive 37 per cent for the mean reversion assumption to move outside the corridor.

## C6 Borrowings

### C6.1 Core structural borrowings of shareholder-financed operations

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Holding company operations:note (i)                          |         |         |
| Perpetual Subordinated Capital Securities (Tier 1)note 814   |         | 890     |
| (i)  |         |         |
| Perpetual Subordinated Capital Securities (Tier 2)note 2,326 |         | 2,754   |
| (i),(iv),(v)   |         |         |
| Subordinated Notes (Tier 2)note (i)                          | 2,132   | 2,128   |
| Subordinated debt total                                      | 5,272   | 5,772   |
| Senior debt:note (ii)  |         |         |
| £300m 6.875% Bonds 2023                                      | 300     | 300     |
| £250m 5.875% Bonds 2029                                      | 249     | 249     |
| Holding company total  | 5,821   | 6,321   |
|  | 275     | 275     |

|   |       |       |
|---|-------|-------|
| Prudential Capital bank<br>loannote (iii)                   |       |       |
| Jackson US\$250m 8.15%<br>Surplus Notes 2027                | 184   | 202   |
| Total (per consolidated<br>statement of financial position) | 6,280 | 6,798 |

## Notes

(i)

These debt tier classifications are consistent with the treatment of capital for regulatory purposes under the Solvency II regime.

The Group has designated all US\$4,275 million (2016: US\$4,525 million) of its US dollar denominated subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the net investment in Jackson.

(ii)

The senior debt ranks above subordinated debt in the event of liquidation.

(iii)

The Prudential Capital bank loan of £275 million is drawn at a cost of 12 month GBP LIBOR plus 0.33 per cent. The loan was renewed in December 2017 maturing on 20 December 2022 with an option to repay annually.

(iv)

In October 2017, the Company issued core structural borrowings of US\$750 million 4.875 per cent Tier 2 perpetual subordinated notes. The proceeds, net of costs, were £565 million.

(v)

In December 2017, the Company repaid its US\$1,000 million 6.5 per cent Tier 2 perpetual subordinated notes.

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. Prudential plc's long-term senior debt is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

The financial strength of The Prudential Assurance Company Limited is rated AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's, AA by Fitch and A+ by AM Best.

Prudential Assurance Co. Singapore (Pte) Ltd.'s (Prudential Singapore) financial strength is rated AA by Standard & Poor's.

All ratings on Prudential and its subsidiaries have been reaffirmed on stable outlook. All ratings stated as at 13 March 2018.

## C6.2

## Other borrowings

(a)

Operational borrowings attributable to shareholder-financed operations

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Borrowings in respect of short-term fixed income securities programmes | 1,085   | 1,651   |
| Other borrowingsnote   | 706     | 666     |
| Total  | 1,791   | 2,317   |



Note

Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson. In addition, other borrowings include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(b)

Borrowings attributable to with-profits operations

|  | 2017 £m | 2016 £m |
|--|---------|---------|
| Non-recourse borrowings of consolidated investment funds*                          | 3,570   | 1,189   |
| £100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc† | 100     | 100     |
| Other borrowings (predominantly obligations under finance leases)                  | 46      | 60      |
| Total  | 3,716   | 1,349   |

\*

In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of these subsidiaries and funds. The increase since 31 December 2016 primarily relates to the debt instruments issued by new consolidated securitisation entities backed by a portfolio of mortgage loans (see note C3.3(c) for further details).

†

The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C7

Risk and sensitivity analysis

C7.1

Group overview

The Group's risk framework and the management of the risk, including those attached to the Group's financial statements including financial assets, financial liabilities and insurance liabilities, together with the inter-relationship with the management of capital have been included in the 'Report on the risks facing our business and how these are managed'.

The financial and insurance assets and liabilities on the Group's balance sheet are, to varying degrees, subject to market and insurance risk and other changes of experience assumptions that may have a material effect on IFRS basis profit or loss and shareholders' equity. The market and insurance risks, including how they affect Group's operations and how these are managed are discussed in the Risk report referred to above.

The most significant items that the IFRS shareholders' profit or loss and shareholders' equity for the Group's life assurance business are sensitive to, are shown in the following tables. The distinction between direct and indirect exposure is not intended to indicate the relative size of the sensitivity.

| Type of business                                  | Market and credit risk                      | Insurance and lapse risk |
|---|---|--------------------------|
|   | Liabilities /<br>Investments/Other exposure |                          |
|   | surplus                                     |                          |
| Asia insurance operations (see also section C7.2) |   |                          |
| All business                                      |   |                          |

|   |  |   |
|---|--|---|
|   | Currency risk  | Mortality and morbidity risk<br>Persistency risk  |
| With-profits business                           | Net neutral direct exposure (indirect exposure only)   | Investment performance subject to smoothing through declared bonuses                              |
| Unit-linked business                            | Net neutral direct exposure (indirect exposure only)   | Investment performance through asset management fees  |
| Non-participating business                      | Asset/liability mismatch risk<br>Interest rates for those operations where the basis of insurance liabilities is sensitive to current market movements<br>Interest rate and price risk |   |
| US insurance operations (see also section C7.3) |  |   |
| All business                                    | Currency risk  | Persistency risk  |
| Variable annuity business                       | Net effect of market risk arising from incidence of guarantee  | Risk that utilisation of withdrawal benefits or lapse levels differ from those assumed in pricing |

features  
and  
variability  
of asset  
management  
fees offset  
by  
derivative  
hedging  
programme

Fixed index annuity business

Derivative  
hedge  
programme  
incidence  
to  
of equity  
the  
participation  
extent  
features  
not  
fully  
hedged  
against  
liability

Fixed index annuities, Fixed annuities  
and GIC business

Credit  
risk  
Interest  
rate  
risk  
Profit  
and  
loss  
and  
shareholders'  
equity  
are  
volatile  
for  
these  
risks  
as  
they  
affect  
the  
values  
of  
derivatives  
and  
embedded

Spread difference  
between earned  
rate and rate  
credited  
to policyholders

Lapse risk, but the  
effects of extreme  
events may be  
mitigated  
by the application of  
market value  
adjustments

derivatives  
 and  
 impairment  
 losses.  
 In  
 addition,  
 shareholders'  
 equity  
 is  
 volatile  
 for  
 the  
 incidence  
 of  
 these  
 risks  
 on  
 unrealised  
 appreciation  
 of  
 fixed  
 income  
 securities  
 classified  
 as  
 available-for-sale  
 under  
 IAS  
 39

UK and Europe insurance operations (see also  
 section C7.4)

|                       |   |   |  |
|-----------------------|---|---|--|
| With-profits business | Net neutral<br>direct<br>exposure<br>(indirect<br>exposure<br>only) | Investment performance subject to<br>smoothing through declared bonuses | Persistency risk to<br>future shareholder<br>transfers |
|-----------------------|---|---|--|

|               |   |                              |
|---------------|---|------------------------------|
| SAIF sub-fund | Net neutral<br>direct<br>exposure<br>(indirect<br>exposure<br>only) | Asset management fees earned |
|---------------|---|------------------------------|

|                                     |  |  |
|-------------------------------------|--|--|
| Unit-linked business                | <p>Net neutral<br/>direct<br/>exposure<br/>(indirect<br/>exposure<br/>only)</p> <p>Investment performance through asset<br/>management fees</p>              | Persistency risk                                   |
| Shareholder-backed annuity business | <p>Asset/liability<br/>mismatch<br/>risk<br/>Credit<br/>risk<br/>for<br/>assets<br/>covering<br/>liabilities<br/>and<br/>shareholder<br/>capital</p>         | Mortality experience and assumptions for longevity |
|                                     | <p>Interest<br/>rate<br/>risk<br/>for<br/>assets<br/>in<br/>excess<br/>of<br/>liabilities<br/>ie<br/>assets<br/>representing<br/>shareholder<br/>capital</p> |  |

Detailed analyses of sensitivity of IFRS basis profit or loss and shareholders' equity to key market and other risks by business unit are provided in notes C7.2, C7.3, C7.4 and C7.5. The sensitivity analyses provided show the effect on profit or loss and shareholders' equity to changes in the relevant risk variables, all of which are reasonably possible at the relevant balance sheet date. In the equity risk sensitivity analysis shown below, the Group has considered the impact of an instantaneous 20 per cent fall in equity markets. If equity markets were to fall by more than 20 per cent, the Group believes that this would not be an instantaneous fall but rather would be expected to occur over a period of time during which the Group would be able to put mitigating management actions in place. In addition, the equity risk sensitivity analysis provided assumed that all equity indices fall by the same percentage.

Impact of diversification on risk exposure

The Group benefits from diversification benefits achieved through the geographical spread of the Group's operations and, within those operations, through a broad mix of product types. Relevant correlation factors include:

Correlation across geographic regions:

- 
- Financial risk factors; and
- 
- Non-financial risk factors.

Correlation across risk factors:

- 
- Longevity risk;
- 
- Expenses;
- 
- Persistency; and
- 
- Other risks.

The sensitivities below do not reflect that assets and liabilities are actively managed and may vary at the time any actual market movement occurs. There are strategies in place to minimise the exposure to market fluctuations. For example, as market indices fluctuate, Prudential would take certain actions including selling investments, changing investment portfolio allocation and adjusting bonuses credited to policyholders. In addition, these analyses do not consider the effect of market changes on new business generated in the future.

Other limitations on the sensitivities include: the use of hypothetical market movements to demonstrate potential risk that only represent Prudential's view of reasonably possible near-term market changes and that cannot be predicted with any certainty; the assumption that interest rates in all countries move identically; the assumption that all global currencies move in tandem with the US dollar against pound sterling; and the lack of consideration of the inter-relation of interest rates, equity markets and foreign currency exchange rates.

## C7.2

### Asia insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The Asia operations sell with-profits and unit-linked policies, and the investment portfolio of the with-profits funds contains a proportion of equities. Non-participating business is largely backed by debt securities or deposits. The Group's exposure to market risk arising from its Asia operations is therefore at modest levels. This reflects the fact that the Asia operations have a balanced portfolio of with-profits, unit-linked and other types of business.

In Asia, adverse persistency experience can impact the IFRS profitability of certain types of business written in the region. This risk is managed at a business unit level through regular monitoring of experience and the implementation of management actions as necessary. These actions could include product enhancements, increased management focus on premium collection, as well as other customer retention efforts. The potential financial impact of lapses is often mitigated through the specific features of the products, eg surrender charges, or through the availability of premium holiday or partial withdrawal policy features.

In summary, for Asia operations, the operating profit based on longer-term investment returns is mainly affected by the impact of market levels on unit-linked persistency, and other insurance risks. At the total IFRS profit level the Asia result is affected by short-term value movements on the asset portfolio for non-linked shareholder-backed business.

i

Sensitivity to risks other than foreign exchange risk

Interest rate risk

Excluding its with-profits and unit-linked businesses, the results of the Asia business are sensitive to the movements in interest rates.

For the purposes of analysing sensitivity to variations in interest rates, reference has been made to the movements in the 10-year government bond rates of the territories. At 31 December 2017, 10-year government bond rates vary from territory to territory and range from 1.0 per cent to 7.5 per cent (2016: 1.2 per cent to 8.1 per cent).

For the sensitivity analysis as shown in the table below, the reasonably possible interest rate movement used is 1 per cent for all territories.

The estimated sensitivity to the decrease and increase in interest rates at 31 December 2017 and 2016 is as follows:

|  | 2017 £m           |                   | 2016 £m           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Decrease<br>of 1% | Increase<br>of 1% | Decrease<br>of 1% | Increase<br>of 1% |
| Profit before tax attributable to shareholders | 2                 | (443)             | 213               | (509)             |
| Related deferred tax (where applicable)        | (7)               | 20                | (41)              | 62                |
| Net effect on profit and shareholders' equity  | (5)               | (423)             | 172               | (447)             |

The pre-tax impacts, if they arose, would mostly be recorded within the category short-term fluctuations in investments returns in the Group's segmental analysis of profit before tax.

The degree of sensitivity of the results of the non-linked shareholder-backed business of the Asia operations to movements in interest rates depends upon the degree to which the liabilities under the 'grandfathered' IFRS 4 measurement basis reflects market interest rates from period-to-period. For example for those countries, such as those applying US GAAP, the results can be more sensitive as the effect of interest rate movements on the backing investments may not be offset by liability movements.

In addition, the degree of sensitivity of the results shown in the table above is dependent on the interest rate level at that point of time. The low interest rates in certain countries have had an adverse impact on the degree of sensitivity to a decrease in interest rates.

An additional factor to the direction of the sensitivity of the Asia operations as a whole is movement in the country mix.

Equity price risk

The non-linked shareholder-backed business has limited exposure to equity and property investment (31 December 2017: £1,764 million). Generally changes in equity and property investment values are not directly offset by movements in non-linked policyholder liabilities.

The estimated sensitivity to a 10 per cent and 20 per cent change in equity and property prices for shareholder-backed Asia other business (including those held by the Group's joint venture and associate businesses), which would be reflected in the short-term fluctuation component of the Group's segmental analysis of profit before tax, at 31 December 2017 and 2016 is as follows:

|  | 2017 £m            |        | 2016 £m            |        |
|--|--------------------|--------|--------------------|--------|
|  | Decrease<br>of 20% | of 10% | Decrease<br>of 20% | of 10% |
| Profit before tax attributable to shareholders | (478)              | (239)  | (386)              | (192)  |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Related deferred tax (where applicable)       | 7     | 4     | 4     | 2     |
| Net effect on profit and shareholders' equity | (471) | (235) | (382) | (190) |

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above.

Insurance risk

Many of the business units in Asia are exposed to mortality/morbidity risk and provision is made within policyholder liabilities on a prudent regulatory basis to cover the potential exposure. If these prudent assumptions were strengthened by 5 per cent then it is estimated that post-tax profit and shareholders' equity would be decreased by approximately £66 million (2016: £61 million). Mortality and morbidity has a symmetrical effect on the portfolio and any weakening of these assumptions would have a similar equal and opposite impact.

ii

Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Asia insurance operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2017, the rates for the most significant operations are given in note A1.

A 10 per cent increase (strengthening of the pound sterling) or decrease (weakening of the pound sterling) in these rates would have reduced or increased profit before tax attributable to shareholders, profit for the year and shareholders' equity, excluding goodwill attributable to Asia insurance operations respectively as follows:

|   | A 10% increase in<br>local currency to £<br>exchange rates |         | A 10% decrease in<br>local currency to £<br>exchange rates |         |
|---|--|---------|--|---------|
|   | 2017 £m  | 2016 £m | 2017 £m  | 2016 £m |
| Profit before tax attributable to shareholders                            | (155)  | (97)    | 189  | 118     |
| Profit for the year   | (135)  | (77)    | 165  | 94      |
| Shareholders' equity, excluding goodwill, attributable to Asia operations | (492)  | (442)   | 601  | 540     |

C7.3

US insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

Jackson's reported operating profit based on longer-term investment returns is sensitive to market conditions, both with respect to income earned on spread-based products and indirectly with respect to income earned on variable annuity asset management fees. Jackson's main exposures to market risk are to interest rate risk and equity risk.

Jackson is exposed primarily to the following risks:

|                    |   |
|--------------------|---|
| Risks              | Risk of loss  |
| Equity risk        | related to the incidence of benefits related to guarantees issued in connection with its variable annuity contracts; and<br>related to meeting contractual accumulation requirements in fixed index annuity contracts.  |
| Interest rate risk | related to meeting guaranteed rates of accumulation on fixed annuity products following a sustained fall in interest rates;<br><br>related to increases in the present value of projected benefits related to guarantees issued in connection with its variable annuity contracts following a sustained fall in interest rates especially if in conjunction |



with a fall in equity markets;

related to the surrender value guarantee features attached to the Company's fixed annuity products and to policyholder withdrawals following a sharp and sustained increase in interest rates; and

the risk of mismatch between the expected duration of certain annuity liabilities and prepayment risk and extension risk inherent in mortgage-backed securities.

Jackson's derivative programme is used to manage interest rate risk associated with a broad range of products and equity market risk attaching to its equity-based products. Movements in equity markets, equity volatility, interest rates and credit spreads materially affect the carrying value of derivatives that are used to manage the liabilities to policyholders and backing investment assets. Movements in the carrying value of derivatives combined with the use of US GAAP measurement (as 'grandfathered' under IFRS 4) for the insurance contracts assets and liabilities, which is largely insensitive to current period market movements mean that the Jackson total profit (ie including short-term fluctuations in investment returns) is sensitive to market movements. In addition to these effects the Jackson shareholders' equity is sensitive to the impact of interest rate and credit spread movements on the value of fixed income securities. Movements in unrealised appreciation on these securities are included as movement in shareholders' equity (ie outside the income statement).

Jackson enters into financial derivative transactions, including those noted below to reduce and manage business risks. These transactions manage the risk of a change in the value, yield, price, cash flows or quantity of, or a degree of exposure with respect to assets, liabilities or future cash flows, which Jackson has acquired or incurred.

Jackson uses free-standing derivative instruments for hedging purposes. Additionally, certain liabilities, primarily trust instruments supported by funding agreements, fixed index annuities, certain variable annuity guaranteed benefit features and reinsured Guaranteed Minimum Income Benefit variable annuity features are similar to derivatives. Jackson does not account for such items as either fair value or cash flow hedges as might be permitted if the specific hedge documentation requirements of IAS 39 were followed. Financial derivatives, including derivatives embedded in certain host liabilities that have been separated for accounting and financial reporting purposes are carried at fair value.

The principal types of derivatives used by Jackson and their purpose are as follows:

| Derivative  | Purpose   |
|---|---|
| Interest rate swaps                                     | These generally involve the exchange of fixed and floating payments over the period for which Jackson holds the instrument without an exchange of the underlying principal amount. These agreements are used to hedge Jackson's exposure to movements in interest rates.  |
| Swaption contracts                                      | These contracts provide the purchaser with the right, but not the obligation, to require the writer to pay the present value of a long-duration interest rate swap at future exercise dates. Jackson both purchases and writes swaptions in order to hedge against significant movements in interest rates.   |
| Treasury futures contracts                              | These derivatives are used to hedge Jackson's exposure to movements in interest rates.  |
| Equity index futures contracts and equity index options | These derivatives (including various call and put options and options contingent on interest rates and currency exchange rates) are used to hedge Jackson's obligations associated with its issuance of certain VA guarantees. Some of these annuities and guarantees contain embedded options that are fair valued for financial reporting purposes. |
| Cross-currency swaps                                    | Cross-currency swaps, which embody spot and forward currency swaps and additionally, in some cases, interest rate swaps and equity index swaps, are entered into for the purpose of hedging Jackson's foreign currency denominated funding agreements supporting trust instrument obligations.  |
| Credit default swaps                                    | These swaps represent agreements under which Jackson has purchased default protection on certain underlying corporate bonds held in its portfolio. These contracts allow Jackson to sell  |

the protected bonds at par value to the counterparty if a default event occurs in exchange for periodic payments made by Jackson for the life of the agreement. Jackson does not write default protection using credit derivatives.

The estimated sensitivity of Jackson's profit and shareholders' equity to equity and interest rate risks provided below is net of the related changes in amortisation of DAC. The effect on the related changes in amortisation of DAC provided is based on the current 'grandfathered' US GAAP DAC basis but does not include any effect from an acceleration or deceleration of amortisation of DAC.

i

#### Sensitivity to equity risk

At 31 December 2017 and 2016, Jackson had variable annuity contracts with guarantees, for which the net amount at risk (NAR) is defined as the amount of guaranteed benefit in excess of current account value, as follows:

| 31 December 2017   | Minimum return | Account value<br>£m | Net amount at risk<br>£m | Weighted average attained age | Period until expected annuitisation |
|--|----------------|---------------------|--------------------------|-------------------------------|-------------------------------------|
| Return of net deposits plus a minimum return   |                |                     |                          |                               |                                     |
| GMDB   | 0-6%           | 100,451             | 1,665                    | 66.0 years                    |                                     |
| GMWB - premium only  | 0%             | 2,133               | 20                       |                               |                                     |
| GMWB*  | 0-5%**         | 235                 | 13                       |                               |                                     |
| GMAB - premium only  | 0%             | 38                  | -                        |                               |                                     |
| Highest specified anniversary account value minus withdrawals post-anniversary   |                |                     |                          |                               |                                     |
| GMDB   |                | 9,099               | 96                       | 66.5 years                    |                                     |
| GMWB - highest anniversary only  |                | 2,447               | 51                       |                               |                                     |
| GMWB*  |                | 667                 | 47                       |                               |                                     |
| Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary |                |                     |                          |                               |                                     |
| GMDB   | 0-6%           | 5,694               | 426                      | 69.0 years                    |                                     |
| GMIB†  | 0-6%           | 1,484               | 436                      |                               | 0.4 years                           |
| GMWB*  | 0-8%**         | 93,227              | 4,393                    |                               |                                     |
| 31 December 2016   | Minimum return | Account value<br>£m | Net amount at risk<br>£m | Weighted average attained age | Period until expected annuitisation |
| Return of net deposits plus a minimum return   |                |                     |                          |                               |                                     |
| GMDB   | 0-6%           | 93,512              | 2,483                    | 65.6 years                    |                                     |
| GMWB - premium only  | 0%             | 2,217               | 39                       |                               |                                     |
| GMWB*  | 0-5%**         | 256                 | 22                       |                               |                                     |

|  |        |        |       |            |           |
|--|--------|--------|-------|------------|-----------|
| GMAB - premium only  | 0%     | 44     | -     |            |           |
| Highest specified anniversary account value minus withdrawals post-anniversary   |        |        |       |            |           |
| GMDB   |        | 8,798  | 346   | 66.0 years |           |
| GMWB - highest anniversary only  |        | 2,479  | 125   |            |           |
| GMWB*  |        | 747    | 83    |            |           |
| Combination net deposits plus minimum return, highest specified anniversary account value minus withdrawals post-anniversary |        |        |       |            |           |
| GMDB   | 0-6%   | 5,309  | 699   | 68.7 years |           |
| GMIB†  | 0-6%   | 1,595  | 595   |            | 0.5 years |
| GMWB*  | 0-8%** | 85,402 | 9,293 |            |           |

\*

Amounts shown for GMWB comprise sums for the 'not for life' portion (where the guaranteed withdrawal base less the account value equals to the net amount at risk (NAR)), and a 'for life' portion (where the NAR has been estimated as the present value of future expected benefit payment remaining after the amount of the 'not for life' guaranteed benefits is zero).

\*\*

Ranges shown based on simple interest. The upper limits of 5 per cent or 8 per cent simple interest are approximately equal to 4.1 per cent and 6 per cent respectively, on a compound interest basis over a typical 10-year bonus period. For example  $1 + 10 \times 0.05$  is similar to 1.04 growing at a compound rate of 4 per cent for a further nine years.

†

The GMIB guarantees are essentially fully reinsured.

Account balances of contracts with guarantees were invested in variable separate accounts as follows:

|                   | 2017 £m | 2016 £m |
|-------------------|---------|---------|
| Mutual fund type: |         |         |
| Equity            | 80,843  | 73,430  |
| Bond              | 13,976  | 15,044  |
| Balanced          | 19,852  | 17,441  |
| Money market      | 681     | 994     |
| Total             | 115,352 | 106,909 |

As noted above, Jackson is exposed to equity risk through the options embedded in the fixed index annuity liabilities and guarantees included in certain variable annuity benefits as illustrated above. This risk is managed using an equity hedging programme to minimise the risk of a significant economic impact as a result of increases or decreases in equity market levels while taking advantage of naturally offsetting exposures in Jackson's operations. Jackson purchases futures and options that hedge the risks inherent in these products, while also considering the impact of rising and falling guaranteed benefit fees.

Due to the nature and the valuation under IFRS of the free-standing derivatives and the Variable annuity guarantee features, this hedge, while highly effective on an economic basis, would not be completely mute in the financial reporting as the immediate impact of equity market movements reset the free-standing derivatives immediately while the hedged liabilities reset more slowly and fees are recognised prospectively in the period in which they are earned.

In addition to the exposure explained above, Jackson is also exposed to equity risk from its holding of equity securities, partnerships in investment pools and other financial derivatives.

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At 31 December 2017, the estimated sensitivity of Jackson's profit and shareholders' equity to immediate increases and decreases in equity markets is shown below. The sensitivities are shown net of related changes in DAC amortisation.

|   | 2017 £m  |        |          |        | 2016 £m  |        |          |        |
|---|----------|--------|----------|--------|----------|--------|----------|--------|
|   | Decrease |        | Increase |        | Decrease |        | Increase |        |
|   | of 20%   | of 10% | of 20%   | of 10% | of 20%   | of 10% | of 20%   | of 10% |
| Pre-tax profit, net of related changes in amortisation of DAC | 1,107    | 336    | 619      | 262    | 1,061    | 488    | 370      | 59     |
| Related deferred tax effects                                  | (233)    | (71)   | (130)    | (55)   | (371)    | (171)  | (129)    | (21)   |
| Net sensitivity of profit after tax and shareholders' equity  | 874      | 265    | 489      | 207    | 690      | 317    | 241      | 38     |

Note

The table above has been prepared to exclude the impact of the instantaneous equity movements on the separate account fees. In addition, the sensitivity movements shown include those relating to the fixed index annuity and the reinsurance of GMIB guarantees.

The above table provides sensitivity movements as at a point in time while the actual impact on financial results would vary contingent upon the volume of new product sales and lapses, changes to the derivative portfolio, correlation of market returns and various other factors including volatility, interest rates and elapsed time.

The directional movements in the sensitivities reflect the hedging programme in place at 31 December 2017 and 2016.

ii

Sensitivity to interest rate risk

Except in the circumstances of interest rate scenarios where the guarantee rates included in contract terms are higher than crediting rates that can be supported from assets held to cover liabilities, the accounting measurement of fixed annuity liabilities of Jackson's products is not generally sensitive to interest rate risk. This position derives from the nature of the products and the US GAAP basis of measurement. The GMWB features attached to variable annuity business (other than 'for life' components) are accounted for under US GAAP as embedded derivatives which are fair valued and, therefore, will be sensitive to changes in interest rates.

Debt securities and related derivatives are marked to fair value. Value movements on derivatives, again net of related changes to amortisation of DAC and deferred tax, are recorded within the income statement. Fair value movements on debt securities, net of related changes to amortisation of DAC and deferred tax, are recorded within other comprehensive income. The estimated sensitivity of these items and policyholder liabilities to a 1 per cent and 2 per cent decrease and increase in interest rates at 31 December 2017 and 2016 is as follows:

|   | 2017 £m  |         |          |         | 2016 £m  |         |          |         |
|---|----------|---------|----------|---------|----------|---------|----------|---------|
|   | Decrease |         | Increase |         | Decrease |         | Increase |         |
|   | of 2%    | of 1%   | of 1%    | of 2%   | of 2%    | of 1%   | of 1%    | of 2%   |
| <b>Profit and loss:</b>   |          |         |          |         |          |         |          |         |
| Pre-tax profit effect (net of related changes in amortisation of DAC)         | (4,079)  | (1,911) | 1,373    | 2,533   | (2,899)  | (1,394) | 1,065    | 2,004   |
| Related effect on charge for deferred tax                                     | 857      | 401     | (288)    | (532)   | 1,015    | 488     | (373)    | (701)   |
| Net profit effect   | (3,222)  | (1,510) | 1,085    | 2,001   | (1,884)  | (906)   | 692      | 1,303   |
| <b>Other comprehensive income:</b>  |          |         |          |         |          |         |          |         |
| Direct effect on carrying value of debt securities (net of related changes in | 3,063    | 1,700   | (1,700)  | (3,063) | 3,364    | 1,883   | (1,883)  | (3,364) |

amortisation of DAC)

|  |       |       |         |         |         |       |         |         |
|--|-------|-------|---------|---------|---------|-------|---------|---------|
| Related effect on movement in deferred tax | (643) | (357) | 357     | 643     | (1,177) | (659) | 659     | 1,177   |
| Net effect                                 | 2,420 | 1,343 | (1,343) | (2,420) | 2,187   | 1,224 | (1,224) | (2,187) |
| Total net effect on shareholders' equity   | (802) | (167) | (258)   | (419)   | 303     | 318   | (532)   | (884)   |

These sensitivities are shown only for interest rates in isolation and do not include other movements in credit risk that may affect credit spreads and valuations of debt securities. Similar to sensitivity to equity risk, the sensitivity movements provided in the table above are at a point in time and reflect the hedging programme in place on the balance sheet date, while the actual impact on financial results would vary contingent upon a number of factors.

iii

Sensitivity to foreign exchange risk

Consistent with the Group's accounting policies, the profits of the Group's US operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. For 2017, the average and closing rates were US\$1.29 (2016: US\$1.35) and US\$1.35 (2016: US\$1.24) to £1.00 sterling, respectively. A 10 per cent increase (weakening of the dollar) or decrease (strengthening of the dollar) in these rates would reduce or increase profit before tax attributable to shareholders, profit for the year and shareholders' equity attributable to US insurance operations respectively as follows:

|  | A 10% increase in<br>US\$:£ exchange rates |         | A 10% decrease in<br>US\$:£ exchange rates |         |
|--|--|---------|--|---------|
|  | 2017 £m                                    | 2016 £m | 2017 £m                                    | 2016 £m |
| Profit before tax attributable to shareholders               | (54)                                       | (48)    | 66   | 59      |
| Profit for the year  | (20)                                       | (54)    | 24   | 66      |
| Shareholders' equity attributable to US insurance operations | (456)                                      | (473)   | 557  | 578     |

iv

Other sensitivities

The total profit of Jackson is sensitive to market risk on the assets covering liabilities other than variable annuity business segregated in the separate accounts.

For term business, acquisition costs are deferred and amortised in line with expected premiums. For annuity and interest-sensitive life business, acquisition costs are deferred and amortised in line with expected gross profits on the relevant contracts. For interest-sensitive business, the key assumption is the expected long-term spread between the earned rate and the rate credited to policyholders. In addition, expected gross profits depend on mortality assumptions, assumed unit costs and terminations other than deaths (including the related charges) all of which are based on a combination of actual experience of Jackson, industry experience and future expectations. A detailed analysis of actual experience is measured by internally developed expense, mortality and persistency studies.

For variable annuity business, an assumption made is the expected long-term level of separate account returns, which for 2017 was 7.4 per cent (2016: 7.4 per cent). The impact of using this return is reflected in two principal ways, namely:

–

Through the projected expected gross profits that are used to determine the amortisation of deferred acquisition costs. This is applied through the use of a mean reversion technique; and

–

The required level of provision for claims for guaranteed minimum death, 'for life' withdrawal, and income benefits.

Jackson is sensitive to mortality risk, lapse risk and other types of policyholder behaviour, such as the utilisation of its GMWB product features. Jackson's persistency assumptions reflect a combination of recent experience for each

relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. These assumptions vary by relevant factors, such as product, policy duration, attained age and for variable annuity lapse assumptions, the extent to which guaranteed benefits are 'in the money' relative to policy account values. Changes in these assumptions, which are assessed on an annual basis after considering recent experience, could have a material impact on policyholder liabilities and therefore on profit before tax. See further information in note B1.2.

In addition, in the absence of hedging, equity and interest rate movements can both cause a loss directly or an increased future sensitivity to policyholder behaviour. Jackson has an extensive derivative programme that seeks to manage the exposure to such altered equity markets and interest rates.

#### C7.4

##### UK and Europe insurance operations

Exposure and sensitivity of IFRS basis profit and shareholders' equity to market and other risks

The IFRS basis results of the UK and Europe insurance operations are most sensitive to the following factors:

- Asset/liability matching;
- Default rate experience;
- Mortality;
- Longevity assumptions; and
- 

The difference between the return on corporate bond and risk-free rate for shareholder-backed annuity business of The Prudential Assurance Company Limited.

Further details are described below.

The IFRS operating profit based on longer-term investment returns for UK and Europe insurance operations is sensitive to changes in longevity assumptions affecting the carrying value of liabilities to policyholders for UK shareholder-backed annuity business. At the total IFRS profit level, the result is particularly sensitive to temporary value movements on assets backing the capital of the shareholder-backed annuity business.

##### With-profits business

###### With-profits sub-fund business

The shareholder results of the UK with-profits business (including non-participating annuity business of the with-profits sub-fund) are only sensitive to market risk through the indirect effect of investment performance on declared policyholder bonuses.

The investment assets of PAC with-profits funds are subject to market risk. Changes in their carrying value, net of related changes to asset-share liabilities of with-profits contracts, affect the level of unallocated surplus of the fund. Therefore, the level of unallocated surplus is particularly sensitive to the level of investment returns on the portion of the assets that represents surplus. However, as unallocated surplus is accounted for as a liability under IFRS, movements in its value do not affect shareholders' profit and equity.

The shareholder results of the UK with-profits fund are currently one-ninth of the cost of bonuses declared to with-profits policyholders. For certain unitised with-profits products, such as the PruFund range of funds, the bonuses represent the policyholders' net return based on the smoothed unit price of the selected investment fund. Investment

performance is a key driver of bonuses declared, and hence the shareholder results. Due to the 'smoothed' basis of bonus declaration, the sensitivity to short-term investment performance is relatively low. However, long-term investment performance and persistency trends may affect future shareholder transfers.

#### Shareholder-backed annuity business

Profits from shareholder-backed annuity business are most sensitive to:

–

The extent to which the duration of the assets held closely matches the expected duration of the liabilities under the contracts;

–

Actual versus expected default rates on assets held;

–

The difference between long-term rates of return on corporate bonds and risk-free rates;

–

The variance between actual and expected mortality experience;

–

The extent to which changes to the assumed rate of improvements in mortality give rise to changes in the measurement of liabilities; and

–

Changes in renewal expense levels.

In addition the level of profit is affected by change in the level of reinsurance cover.

A decrease in assumed mortality rates of 1 per cent would decrease pre-tax profit by approximately £66 million (2016: £67 million). A decrease in credit default assumptions of five basis points would increase pre-tax profit by £198 million (2016: £200 million). A decrease in renewal expenses (excluding asset management expenses) of 5 per cent would increase pre-tax profit by £40 million (2016: £41 million). The effect on profit would be approximately symmetrical for changes in assumptions that are directionally opposite to those explained above. The net effect on profit after tax and shareholders' equity from all the changes in assumptions as described above would be an increase of approximately £143 million (2016: £144 million). See C4.1(d)(iii) for further details on mortality assumptions.

#### Unit-linked and other business

Unit-linked and other business represents a comparatively small proportion of the in-force business of the UK and Europe insurance operations.

Due to the matching of policyholder liabilities to attaching asset value movements, the UK unit-linked business is not directly affected by market or credit risk. The liabilities of the other business are also broadly insensitive to market risk. Profits from unit-linked and similar contracts primarily arise from the excess of charges to policyholders for management of assets, over expenses incurred. The former is most sensitive to the net accretion of funds under management as a function of new business and lapse and timing of death. The accounting impact of the latter is dependent upon the amortisation of acquisition costs in line with the emergence of margins (for insurance contracts) and amortisation in line with service provision (for the investment management component of investment contracts). By virtue of the design features of most of the contracts which provide low levels of mortality cover, the profits are relatively insensitive to changes in mortality experience.

#### Sensitivity to interest rate risk and other market risk

By virtue of the fund structure, product features and basis of accounting, the policyholder liabilities of the UK and Europe insurance operations are, except annuity business, not generally exposed to interest rate risk. At 31 December 2017 annuity liabilities accounted for 98 per cent (2016: 98 per cent) of UK shareholder-backed business liabilities. For annuity business, liabilities are exposed to interest rate risk. However, the net exposure substantially ameliorated

by virtue of the close matching of assets with appropriate duration. The level of matching from period to period can vary depending on management actions and economic factors so it is possible for a degree of mis-matching profits or losses to arise.

The close matching by the Group of assets of appropriate duration to annuity liabilities is based on maintaining economic and regulatory capital. Liabilities are measured differently under Solvency II reporting requirements than under IFRS resulting in an alteration to the assets used to measure the IFRS annuity liabilities. As a result, IFRS has a different sensitivity to interest rate and credit risk than under Solvency II.

The estimated sensitivity of the UK non-linked shareholder-backed business (principally annuities business) to a movement in interest rates is as follows:

|  | 2017 £m          |                  |                   |                   | 2016 £m          |                  |                   |                   |
|--|------------------|------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
|  | A decrease of 2% | A decrease of 1% | An increase of 1% | An increase of 2% | A decrease of 2% | A decrease of 1% | An increase of 1% | An increase of 2% |
| Carrying value of debt securities and derivatives            | 13,497           | 5,805            | (4,659)           | (8,541)           | 12,353           | 5,508            | (4,527)           | (8,313)           |
| Policyholder liabilities                                     | (9,426)          | (4,210)          | 3,443             | 6,295             | (10,023)         | (4,466)          | 3,636             | 6,635             |
| Related deferred tax effects                                 | (658)            | (254)            | 190               | 348               | (396)            | (177)            | 151               | 285               |
| Net sensitivity of profit after tax and shareholders' equity | 3,413            | 1,341            | (1,026)           | (1,898)           | 1,934            | 865              | (740)             | (1,393)           |

In addition the shareholder-backed portfolio of UK non-linked insurance operations (covering policyholder liabilities and shareholders' equity) includes equity securities and investment properties. Excluding any offsetting effects on the measurement of policyholder liabilities, a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax and shareholders' equity.

|  | 2017 £m           |                   | 2016 £m           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | A decrease of 20% | A decrease of 10% | A decrease of 20% | A decrease of 10% |
| Pre-tax profit   | (332)             | (166)             | (326)             | (163)             |
| Related deferred tax effects                                 | 57                | 28                | 66                | 33                |
| Net sensitivity of profit after tax and shareholders' equity | (275)             | (138)             | (260)             | (130)             |

A 10 or 20 per cent increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above. The market risk sensitivities shown above reflect the impact of temporary market movements, and, therefore the primary effect of such movements would, in the Group's segmental analysis of profits, be included within the short-term fluctuations in investment returns.

## C7.5

### Asset management and other operations

a

#### Asset management

i

#### Sensitivities to foreign exchange risk

Consistent with the Group's accounting policies, the profits of Eastspring Investments and US asset management operations are translated at average exchange rates and shareholders' equity at the closing rate for the reporting period. The rates for the functional currencies of most significant operations are shown in note A1.



A 10 per cent increase in the relevant exchange rates (strengthening of the pound sterling) would have reduced reported profit before tax attributable to shareholders, and shareholders' equity excluding goodwill attributable to Eastspring Investments and US asset management operations, by £30 million and £53 million respectively (2016: £12 million and £47 million, respectively).

ii

Sensitivities to other financial risks for asset management operations

The profits of asset management businesses are sensitive to the level of assets under management, as this significantly affects the value of management fees earned by the business in the current and future periods. The Group's asset management operations do not hold significant investments in property or equities.

b

Other operations

The Group holds certain derivatives that are used to manage foreign currency movements and macroeconomic exposures. The fair value of these derivatives is sensitive to the combined effect of movements in exchange rates, interest rates and inflation rates. The possible permutations cover a wide range of scenarios. For indicative purposes, a reasonably possible range of fair value movements could be plus or minus £150 million.

Other operations are sensitive to credit risk on the bridging loan portfolio of the Prudential Capital operation. Total debt securities held at 31 December 2017 by Prudential Capital were £2,238 million (2016: £2,359 million). Debt securities held by Prudential Capital are in general variable rate bonds and so market value is limited in sensitivity to interest rate movements and consequently any change in interest rates would not have a material impact on profit or shareholders' equity.

C8

Tax assets and liabilities

Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

|   | 2017 £m  |                              |  |  |           |
|---|----------|------------------------------|--|--|-----------|
|   | At 1 Jan | Movement in income statement | Movement through other comprehensive income and equity | Other movements including foreign currency movements | At 31 Dec |
| Deferred tax assets                                     |          |                              |  |  |           |
| Unrealised losses or gains on investments               | 23       | (8)                          | -  | (1)  | 14        |
| Balances relating to investment and insurance contracts | 1        | -                            | -  | -  | 1         |
| Short-term temporary differences                        | 4,196    | (1,396)                      | (1)  | (267)  | 2,532     |
| Capital allowances                                      | 16       | (2)                          | -  | -  | 14        |
| Unused tax losses                                       | 79       | (12)                         | -  | (1)  | 66        |
| Total   | 4,315    | (1,418)                      | (1)  | (269)  | 2,627     |

Deferred tax liabilities

|   |         |       |      |      |         |
|---|---------|-------|------|------|---------|
| Unrealised losses or gains on investments               | (1,534) | (177) | (55) | 18   | (1,748) |
| Balances relating to investment and insurance contracts | (730)   | (156) | -    | 14   | (872)   |
| Short-term temporary differences                        | (3,071) | 870   | (26) | 186  | (2,041) |
| Capital allowances                                      | (35)    | (3)   | -    | (16) | (54)    |
| Total   | (5,370) | 534   | (81) | 202  | (4,715) |

The reduction in the US corporate income tax rate to 21 per cent from 1 January 2018 was substantively enacted on 22 December 2017. The remeasurement to 21 per cent reduced deferred tax assets subject to US taxation by £1,587 million and deferred tax liabilities by £1,368 million. The £219 million net reduction was reflected partly in the income statement (£445 million charge attributable to shareholders and £92 million benefit to policyholders) and partly through reserves in other comprehensive income (£134 million benefit).

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

## C9

### Defined benefit pension schemes

#### (a)

##### Background and summary economic and IAS 19 financial positions

The Group's businesses operate a number of pension schemes. The specific features of these schemes vary in accordance with the regulations of the country in which the employees are located, although they are, in general, funded by the Group and based either on a cash balance formula or on years of service and salary earned in the last year or years of employment. The largest defined benefit scheme is the principal UK scheme, namely the Prudential Staff Pension Scheme (PSPS). PSPS accounts for 82 per cent (2016: 82 per cent) of the underlying scheme liabilities of the Group's defined benefit schemes.

The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

Under IAS 19 'Employee Benefits' and IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', the Group is only able to recognise a surplus to the extent that it is able to access the surplus either through an unconditional right of refund or through reduced future contributions relating to on-going service of active members. The Group has no unconditional right of refund to any surplus in PSPS. Accordingly, the PSPS surplus recognised is restricted to the present value of the economic benefit to the Group from the difference between the estimated future on-going contributions and the full future cost of service for the active members. In contrast, the group is able to access the surplus of SASPS and M&GGPS. Therefore, the amounts recognised for these schemes are the IAS 19 valuation amount (either a surplus or deficit).

The Group asset/liability in respect of defined benefit pension schemes is as follows:

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|   | 2017 £m          |                    |        |                  |       | 2016 £m          |                    |        |                  |       |
|---|------------------|--------------------|--------|------------------|-------|------------------|--------------------|--------|------------------|-------|
|   | PSPS<br>note (i) | SASPS<br>note (ii) | M&GGPS | Other<br>schemes | Total | PSPS<br>note (i) | SASPS<br>note (ii) | M&GGPS | Other<br>schemes | Total |
| Underlying economic surplus (deficit)   | 721              | (137)              | 109    | (1)              | 692   | 717              | (237)              | 84     | (1)              | 563   |
| Less: unrecognised surplus  | (485)            | -                  | -      | -                | (485) | (558)            | -                  | -      | -                | (558) |
| Economic surplus (deficit) (including investment in Prudential insurance policies)                        | 236              | (137)              | 109    | (1)              | 207   | 159              | (237)              | 84     | (1)              | 5     |
| Attributable to:  |                  |                    |        |                  |       |                  |                    |        |                  |       |
| PAC with-profits fund   | 165              | (55)               | -      | -                | 110   | 111              | (95)               | -      | -                | 16    |
| Shareholder-backed operations   | 71               | (82)               | 109    | (1)              | 97    | 48               | (142)              | 84     | (1)              | (11)  |
| Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies | -                | -                  | (151)  | -                | (151) | -                | -                  | (134)  | -                | (134) |
| IAS 19 pension asset (liability) on the Group statement of financial position                             | 236              | (137)              | (42)   | (1)              | 56    | 159              | (237)              | (50)   | (1)              | (129) |

Notes

(i)

No deficit or other funding is required for PSPS. Deficit funding, where applicable, is apportioned in the ratio of 70/30 between the PAC with-profits fund and shareholder-backed operations following detailed considerations in 2005 of the sourcing of previous contributions. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

(ii)

The deficit of SASPS has been allocated 40 per cent to the PAC with-profits fund and 60 per cent to the shareholders' fund as at 31 December 2017 and 2016.

(iii)

The underlying position on an economic basis reflects the assets (including investments in Prudential insurance policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes.

(iv)

At 31 December 2017, the PSPS pension asset of £236 million (2016: £159 million) and the other schemes' pension liabilities of £180 million (2016: £288 million) are included within 'Other debtors' and 'Provisions' respectively on the consolidated statement of financial position.

Triennial actuarial valuations

Defined benefit pension schemes in the UK are generally required to be subject to full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The actuarial valuation differs from the IAS 19 accounting basis valuation in a number of respects, including the discount rate assumption where IAS 19 prescribes a rate based on high quality corporate bonds while a more 'prudent' assumption is used for the actuarial valuation.

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The information on the latest completed actuarial valuation for the UK schemes is shown in the table below:

|  | PSPS  | SASPS   | M&GGPS  |
|--|---|---|---|
| Last completed actuarial valuation date  | 5 April 2014*   | 31 March 2017   | 31 December 2014*                               |
| Valuation actuary, all Fellows of the Institute and Faculty of Actuaries                   | C G Singer Towers Watson Limited  | Jonathan Seed Xafinity Consulting   | Paul Belok AON Hewitt Limited                   |
| Funding level at the last valuation  | 107 per cent  | 75 per cent   | 99 per cent                                     |
| Deficit funding arrangement agreed with the Trustees based on the last completed valuation | No deficit or other funding required. Ongoing contributions for active members are at the minimum level required under the scheme rules (approximately £6 million per annum excluding expenses) | Deficit funding of £26 million per annum from 1 April 2017 until 31 March 2027, or earlier if the scheme's funding level reaches 100 per cent before this date. The deficit funding will be reviewed every three years at subsequent valuations | No deficit funding required from 1 January 2016 |

\*The triennial valuations for PSPS and M&GGPS as at 5 April 2017 and 31 December 2017 respectively are currently in progress.

(b)

Assumptions

The actuarial assumptions used in determining benefit obligations and the net periodic benefit costs for the years ended 31 December were as follows:

|  | 2017 % | 2016 % |
|--|--------|--------|
| Discount rate*   | 2.5    | 2.6    |
| Rate of increase in salaries                           | 3.1    | 3.2    |
| Rate of inflation**                                    |        |        |
| Retail prices index (RPI)                              | 3.1    | 3.2    |
| Consumer prices index (CPI)                            | 2.1    | 2.2    |
| Rate of increase of pensions in payment for inflation: |        |        |
| PSPS:  |        |        |
| Guaranteed (maximum 5%)                                | 2.5    | 2.5    |
| Guaranteed (maximum 2.5%)                              | 2.5    | 2.5    |
| Discretionary  | 2.5    | 2.5    |
| Other schemes  | 3.1    | 3.2    |

\*

The discount rate has been determined by reference to an 'AA' corporate bond index, adjusted where applicable to allow for the difference in duration between the index and the pension liabilities.

\*\*

The rate of inflation reflects the long-term assumption for UK RPI or CPI depending on the tranche of the schemes.

The calculations are based on current mortality estimates with an allowance made for future improvements in mortality. This allowance reflected the CMI's 2014 mortality improvements model, with scheme-specific calibrations. For immediate annuities in payment, in 2017 and 2016, a long-term mortality improvement rate of 1.75 per cent per annum and 1.25 per cent per annum was applied for males and females, respectively.

(c)

Estimated pension scheme surpluses and deficits

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on the Group consolidation) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. At 31 December 2017, M&GGPS held investments in Prudential insurance policies of £151 million (2016: £134 million).

Movements on the pension scheme surplus determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

|   | 2017 £m  |   |  |                    |   |
|---|--|---|--|--------------------|---|
|   | Surplus<br>(deficit)<br>in schemes<br>at 1 Jan<br>2017 | (Charge) credit<br>to income<br>statement | Actuarial gains<br>and losses<br>in other<br>comprehensive<br>income | Contributions paid | Surplus<br>(deficit)<br>in schemes<br>at 31 Dec<br>2017 |
| All schemes   |  |   |  |                    |   |
| Underlying position (without<br>the effect of IFRIC 14)             |  |   |  |                    |   |
| Surplus (deficit)   | 563  | (40)                                      | 119  | 50                 | 692   |
| Less: amount attributable to<br>PAC with-profits fund               | (425)  | 10  | (39)   | (19)               | (473)   |
| Shareholders' share:  |  |   |  |                    |   |
| Gross of tax surplus (deficit)                                      | 138  | (30)                                      | 80   | 31                 | 219   |
| Related tax   | (27)   | 6   | (15)   | (6)                | (42)  |
| Net of shareholders' tax  | 111  | (24)                                      | 65   | 25                 | 177   |
| Application of IFRIC 14 for the<br>derecognition<br>of PSPS surplus |  |   |  |                    |   |
| Derecognition of surplus  | (558)  | (14)                                      | 87   | -                  | (485)   |
| Less: amount attributable to<br>PAC with-profits fund               | 409  | 10  | (56)   | -                  | 363   |
| Shareholders' share:  |  |   |  |                    |   |
| Gross of tax  | (149)  | (4)                                       | 31   | -                  | (122)   |
| Related tax   | 29   | -   | (6)  | -                  | 23  |
| Net of shareholders' tax  | (120)  | (4)                                       | 25   | -                  | (99)  |
| With the effect of IFRIC 14   |  |   |  |                    |   |
| Surplus (deficit)   | 5  | (54)                                      | 206  | 50                 | 207   |
| Less: amount attributable to<br>PAC with-profits fund               | (16)   | 20  | (95)   | (19)               | (110)   |
| Shareholders' share:  |  |   |  |                    |   |
| Gross of tax surplus (deficit)                                      | (11)   | (34)                                      | 111  | 31                 | 97  |
| Related tax   | 2  | 6   | (21)   | (6)                | (19)  |
| Net of shareholders' tax  | (9)  | (28)                                      | 90   | 25                 | 78  |

Underlying investments of the schemes

On the 'economic basis', after including the underlying assets represented by the investments in Prudential insurance policies as scheme assets, the plans' assets at 31 December comprise the following investments:

|                         | 2017  |       |               |     | 2016  |       |               |     |
|-------------------------|-------|-------|---------------|-----|-------|-------|---------------|-----|
|                         | PSPS  |       | Other schemes |     | PSPS  |       | Other schemes |     |
|                         | £m    | £m    | £m            | %   | £m    | £m    | £m            | %   |
| Equities                |       |       |               |     |       |       |               |     |
| UK                      | 9     | 67    | 76            | 1   | 18    | 85    | 103           | 1   |
| Overseas                | 226   | 272   | 498           | 6   | 293   | 368   | 661           | 7   |
| Bonds*                  |       |       |               |     |       |       |               |     |
| Government              | 5,040 | 655   | 5,695         | 63  | 5,411 | 550   | 5,961         | 66  |
| Corporate               | 1,491 | 248   | 1,739         | 20  | 1,169 | 196   | 1,365         | 15  |
| Asset-backed securities | 164   | -     | 164           | 2   | 144   | 6     | 150           | 2   |
| Derivatives             | 188   | (6)   | 182           | 2   | 252   | (2)   | 250           | 3   |
| Properties              | 140   | 130   | 270           | 3   | 71    | 109   | 180           | 2   |
| Other assets            | 216   | 77    | 293           | 3   | 269   | 67    | 336           | 4   |
| Total value of assets   | 7,474 | 1,443 | 8,917         | 100 | 7,627 | 1,379 | 9,006         | 100 |

(d)

Sensitivity of the pension scheme liabilities to key variables

The sensitivity information below is based on the core scheme liabilities and assumptions at the balance sheet date. The sensitivities are calculated based on a change in one assumption with all other assumptions being held constant. As such, interdependencies between the assumptions are excluded. The impact of the rate of inflation assumption sensitivity includes the impact of inflation on the rate of increase in salaries and rate of increase of pensions in payment.

The sensitivities of the underlying pension scheme liabilities as shown below do not directly equate to the impact on the profit or loss attributable to shareholders or shareholders' equity due to the effect of the application of IFRIC 14 on PSPS and the allocation of a share of the interest in the financial position of PSPS and SASPS to the PAC with-profits fund as described above.

|                   | Assumption applied |      | Sensitivity change in assumption | Impact of sensitivity on scheme liabilities on IAS 19 basis |           |
|-------------------|--------------------|------|----------------------------------|---|-----------|
|                   | 2017               | 2016 |                                  | 2017  | 2016      |
| Discount rate     | 2.5%               | 2.6% | Decrease by 0.2%                 | Increase in scheme liabilities by:                          |           |
|                   |                    |      |                                  | PSPS  | 3.5% 3.5% |
|                   |                    |      |                                  | Other schemes   | 5.4% 5.3% |
| Discount rate     | 2.5%               | 2.6% | Increase by 0.2%                 | Decrease in scheme liabilities by:                          |           |
|                   |                    |      |                                  | PSPS  | 3.4% 3.5% |
|                   |                    |      |                                  | Other schemes   | 4.9% 5.0% |
| Rate of inflation | 3.1%               | 3.2% | RPI: Decrease by 0.2%            | Decrease in scheme liabilities by:                          |           |

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|                |      |   |                                    |      |      |
|----------------|------|---|------------------------------------|------|------|
| 2.1%           | 2.2% | CPI: Decrease by 0.2% with consequent reduction in salary increases | PSPS                               | 0.6% | 0.6% |
|                |      |   | Other schemes                      | 3.9% | 4.1% |
| Mortality rate |      | Increase life expectancy by 1 year                                  | Increase in scheme liabilities by: |      |      |
|                |      |   | PSPS                               | 4.0% | 3.5% |
|                |      |   | Other schemes                      | 3.8% | 3.7% |

C10

Share capital, share premium and own shares

| Issued shares of 5p each fully paid     | 2017                      |                  | 2016             |                           | Share capital £m | Share premium £m |
|---|---------------------------|------------------|------------------|---------------------------|------------------|------------------|
|   | Number of ordinary shares | Share capital £m | Share premium £m | Number of ordinary shares |                  |                  |
| At 1 January                            | 2,581,061,573             | 129              | 1,927            | 2,572,454,958             | 128              | 1,915            |
| Shares issued under share-based schemes | 6,113,872                 | -                | 21               | 8,606,615                 | 1                | 12               |
| At 31 December                          | 2,587,175,445             | 129              | 1,948            | 2,581,061,573             | 129              | 1,927            |

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 31 December 2017, there were options outstanding under save as you earn schemes to subscribe for shares as follows:

|                  | Number of shares to subscribe for | Share price range   | Exercisable by year |
|------------------|-----------------------------------|---------------------|---------------------|
| 31 December 2017 | 6,448,853                         | from 629p to 1,455p | 2023                |
| 31 December 2016 | 7,068,884                         | 466p to 1,155p      | 2022                |

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares ('own shares') either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £250 million as at 31 December 2017 (2016: £226 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 31 December 2017, 11.4 million (2016: 10.7 million) Prudential plc shares with a market value of £218 million (2016: £175 million) were held in such trusts all of which are for employee incentive plans. The maximum number of shares held during 2017 was 15.1 million which was in March 2017.

The Company purchased the following number of shares in respect of employee incentive plans. The shares purchased each month are as follows:

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|           | Number<br>of shares | 2017 Share<br>price |           |            | Number<br>of shares | 2016 Share<br>price |           |            |
|-----------|---------------------|---------------------|-----------|------------|---------------------|---------------------|-----------|------------|
|           |                     | Low<br>£            | High<br>£ | Cost<br>£  |                     | Low<br>£            | High<br>£ | Cost<br>£  |
| January   | 62,388              | 15.83               | 16.02     | 989,583    | 67,625              | 13.73               | 14.00     | 932,711    |
| February  | 65,706              | 15.70               | 16.09     | 1,052,657  | 79,077              | 11.96               | 12.01     | 947,993    |
| March     | 70,139              | 16.40               | 16.54     | 1,159,950  | 735,361             | 13.09               | 13.72     | 9,686,101  |
| April     | 3,090,167           | 16.58               | 16.80     | 51,369,760 | 84,848              | 12.91               | 13.31     | 1,115,919  |
| May       | 55,744              | 17.50               | 17.62     | 979,645    | 2,272,344           | 13.17               | 13.31     | 30,238,832 |
| June      | 182,780             | 17.52               | 18.00     | 3,269,447  | 576,386             | 11.28               | 13.09     | 6,604,231  |
| July      | 51,984              | 17.72               | 17.93     | 927,452    | 84,883              | 11.96               | 12.32     | 1,040,732  |
| August    | 55,857              | 18.30               | 18.73     | 1,025,802  | 73,602              | 14.01               | 14.25     | 1,040,528  |
| September | 51,226              | 17.45               | 17.97     | 912,151    | 173,166             | 13.69               | 14.14     | 2,372,037  |
| October   | 136,563             | 17.99               | 18.22     | 2,483,879  | 71,253              | 14.37               | 14.50     | 1,026,260  |
| November  | 53,951              | 18.38               | 18.40     | 992,123    | 69,976              | 13.49               | 15.40     | 1,044,194  |
| December  | 53,519              | 18.26               | 18.47     | 986,000    | 71,626              | 15.76               | 16.37     | 1,134,181  |
| Total     | 3,930,024           |                     |           | 66,148,449 | 4,360,147           |                     |           | 57,183,719 |

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 31 December 2017 was 6.4 million (2016: 6.0 million) and the cost of acquiring these shares of £71 million (2016: £61 million) is included in the cost of own shares. The market value of these shares as at 31 December 2017 was £121 million (2016: £97 million). During 2017, these funds made net acquisitions of 372,029 Prudential shares (2016: net disposals of 77,423) for a net increase of £9.4 million to book cost (2016: net increase of £7.9 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than set out above the Group did not purchase, sell or redeem any Prudential plc listed securities during 2017 or 2016.

D

Other notes

D1

Disposal of businesses

On 18 May 2017, the Group announced that it had completed the sale of its life insurance subsidiary in Korea, PCA Life Insurance Co. Ltd. to Mirae Asset Life Insurance Co. Ltd., following regulatory approvals. The transaction, announced on 10 November 2016, was for a consideration of KRW170 billion (equivalent to £117 million at 17 May 2017 closing rate). The proceeds, net of £9 million of related expenses, were £108 million.

On completion of the sale the cumulative foreign exchange translation gain of the Korea life business of £61 million, that had arisen from 2004 (the year of the Group's conversion to IFRS) to disposal was recycled from other comprehensive income through the profit and loss account in 2017 as required by IAS 21. The adjustment has no net effect on shareholders' equity. The net contribution from the Korea life business to the 2017 profit after tax is the £61 million gain arising from the recycling of foreign exchange translation gains previously recognised in other comprehensive income and other elements in various line items of £5 million.

The 2016 income statement recorded a charge for remeasurement of Korea life business classified as held for sale of £(238) million. For 2016 the result for the year, including short-term fluctuations in investment returns, together with the adjustment to the carrying value gave rise to an aggregate loss of £(227) million. To facilitate comparisons of



businesses retained by the Group, the supplementary analysis of profit shown in note B1.1 shows separately the results of the Korea life business.

On 15 August 2017, the Group, through its subsidiary National Planning Holdings, Inc. (NPH) sold its US independent broker-dealer network to LPL Financial LLC. The initial consideration received was £252 million (US\$325 million) resulting in a profit on disposal of £162 million (US\$209 million) before tax and after costs and net losses that have been incurred in the year.

## D2

### Contingencies and related obligations

#### Litigation and regulatory matters

In addition to the matters set out in note B3(c) in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. These may from time to time include class actions involving Jackson. While the outcome of such litigation and regulatory issues cannot be predicted with certainty, the Company believes that their ultimate outcome will not have a material adverse effect on the Group's financial condition, results of operations, or cash flows.

## D3 Post balance sheet events

### Dividends

The second interim ordinary dividend for the year ended 31 December 2017, that was approved by the Board of Directors after 31 December 2017 is described in note B6.

### Intention to demerge the Group's UK businesses

In March 2018, the Group announced its intention to demerge its UK & Europe business ('M&G Prudential') from Prudential plc, resulting in two separately-listed companies. In preparation for the UK demerger process, Prudential plc intends to transfer the legal ownership of its Hong Kong insurance subsidiaries from The Prudential Assurance Company Limited (M&G Prudential's UK regulated insurance entity) to Prudential Corporation Asia Limited, which is expected to complete by the end of 2019.

### Sale of £12.0 billion\* UK annuity portfolio

In March 2018, M&G Prudential also announced the sale of £12.0 billion\* of its shareholder annuity portfolio to Rothesay Life. Under the terms of the agreement, M&G Prudential has reinsured £12.0 billion\* of liabilities to Rothesay Life, which is expected to be followed by a Part VII transfer of the portfolio by the end of 2019. Further details are set out in the CFO Report.

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

## Additional Unaudited Financial Information

### I(a)

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

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

–

Spread income represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment return on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.

–

Fee income represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.

–

With-profits business represents the gross of tax shareholders' transfer from the with-profits fund for the year.

–

Insurance margin primarily represents profits derived from the insurance risks of mortality and morbidity.

–

Margin on revenues primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.

–

Acquisition costs and administration expenses represent expenses incurred in the year attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance, as well as items that are more appropriately included in other sources of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).

–

DAC adjustments comprise DAC amortisation for the year, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source and margin analysis of Group long-term insurance business  
The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other relevant drivers. Details on the calculation of the Group's average policyholder liability balances are given in note (iv) at the end of this section.

|   | 2017 £m |         | UK and Europe | Total   | Average liability note (iv) | Total bps note (ii) |
|---|---------|---------|---------------|---------|-----------------------------|---------------------|
|   | Asia    | US      |               |         |                             |                     |
| Spread income   | 220     | 751     | 137           | 1,108   | 88,908                      | 125                 |
| Fee income  | 199     | 2,343   | 61            | 2,603   | 166,839                     | 156                 |
| With-profits  | 59      | -       | 288           | 347     | 136,474                     | 25                  |
| Insurance margin                                      | 1,310   | 906     | 55            | 2,271   |                             |                     |
| Margin on revenues                                    | 2,097   | -       | 189           | 2,286   |                             |                     |
| Expenses:   |         |         |               |         |                             |                     |
| Acquisition costsnote (i)                             | (1,489) | (876)   | (68)          | (2,433) | 6,958                       | (35)%               |
| Administration expenses                               | (959)   | (1,174) | (164)         | (2,297) | 261,114                     | (88)                |
| DAC adjustmentsnote (v)                               | 241     | 260     | 4             | 505     |                             |                     |
| Expected return on shareholder assets                 | 121     | 4       | 104           | 229     |                             |                     |
|   | 1,799   | 2,214   | 606           | 4,619   |                             |                     |
| Longevity reinsurance and other management actions to |         |         | 276           | 276     |                             |                     |

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| improve solvency  |       |       |       |       |
| Changes in longevity assumption basis                                       |       |       | 204   | 204   |
| Provision for review of past annuity sales                                  |       |       | (225) | (225) |
| Long-term business operating profit based on longer-term investment returns | 1,799 | 2,214 | 861   | 4,874 |

See notes at the end of this section.

|   | 2016 AER £m |       |               |         | Average liability note (iv) | Total bps note(ii) |
|---|-------------|-------|---------------|---------|-----------------------------|--------------------|
|   | Asia        | US    | UK and Europe | Total   |                             |                    |
| Spread income   | 192         | 802   | 177           | 1,171   | 83,054                      | 141                |
| Fee income  | 174         | 1,942 | 59            | 2,175   | 139,451                     | 156                |
| With-profits  | 48          | -     | 269           | 317     | 118,334                     | 27                 |
| Insurance margin  | 1,040       | 888   | 63            | 1,991   |                             |                    |
| Margin on revenues  | 1,919       | -     | 207           | 2,126   |                             |                    |
| Expenses:   |             |       |               |         |                             |                    |
| Acquisition costsnote (i)   | (1,285)     | (877) | (89)          | (2,251) | 6,320                       | (36)%              |
| Administration expenses   | (832)       | (959) | (152)         | (1,943) | 229,477                     | (85)               |
| DAC adjustmentsnote (v)   | 148         | 244   | (2)           | 390     |                             |                    |
| Expected return on shareholder assets                                       | 99          | 12    | 110           | 221     |                             |                    |
|   | 1,503       | 2,052 | 642           | 4,197   |                             |                    |
| Longevity reinsurance and other management actions to improve solvency      |             |       | 332           | 332     |                             |                    |
| Provision for review of past annuity sales                                  |             |       | (175)         | (175)   |                             |                    |
| Long-term business operating profit based on longer-term investment returns | 1,503       | 2,052 | 799           | 4,354   |                             |                    |

See notes at the end of this section.

|                           | 2016 CER £m |         |               |         | Average liability note (iv) | Total bps note (ii) |
|---------------------------|-------------|---------|---------------|---------|-----------------------------|---------------------|
|                           | Asia        | US      | UK and Europe | Total   |                             |                     |
| Spread income             | 201         | 837     | 177           | 1,215   | 85,266                      | 142                 |
| Fee income                | 181         | 2,040   | 59            | 2,280   | 145,826                     | 156                 |
| With-profits              | 50          | -       | 269           | 319     | 119,170                     | 27                  |
| Insurance margin          | 1,087       | 933     | 63            | 2,083   |                             |                     |
| Margin on revenues        | 2,004       | -       | 207           | 2,211   |                             |                     |
| Expenses:                 |             |         |               |         |                             |                     |
| Acquisition costsnote (i) | (1,343)     | (921)   | (89)          | (2,353) | 6,574                       | (36)%               |
| Administration expenses   | (866)       | (1,007) | (152)         | (2,025) | 238,392                     | (85)                |
| DAC adjustmentsnote (v)   | 153         | 260     | (2)           | 411     |                             |                     |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Expected return on shareholder assets                                       | 104   | 13    | 110   | 227   |
|   | 1,571 | 2,155 | 642   | 4,368 |
| Longevity reinsurance and other management actions to improve solvency      |       |       | 332   | 332   |
| Provision for review of past annuity sales                                  |       |       | (175) | (175) |
| Long-term business operating profit based on longer-term investment returns | 1,571 | 2,155 | 799   | 4,525 |

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

|   | 2017    | Asia                              |                     |                                   | 2016 CER<br>note (iii) |                                   |                     |        |                                   |
|---|---------|-----------------------------------|---------------------|-----------------------------------|------------------------|-----------------------------------|---------------------|--------|-----------------------------------|
|   |         | 2016 AER                          |                     | Average<br>liability<br>note (iv) |                        |                                   |                     |        |                                   |
|   | Profit  | Average<br>liability<br>note (iv) | Margin<br>note (ii) |                                   | Profit                 | Average<br>liability<br>note (iv) | Margin<br>note (ii) | Profit | Average<br>liability<br>note (iv) |
|   | £m      | £m                                | bps                 | £m                                | £m                     | bps                               | £m                  | £m     | bps                               |
| Long-term business                                      |         |                                   |                     |                                   |                        |                                   |                     |        |                                   |
| Spread income   | 220     | 16,359                            | 134                 | 192                               | 13,299                 | 144                               | 201                 | 13,980 | 144                               |
| Fee income  | 199     | 18,767                            | 106                 | 174                               | 15,643                 | 111                               | 181                 | 16,475 | 110                               |
| With-profits  | 59      | 30,115                            | 20                  | 48                                | 22,823                 | 21                                | 50                  | 23,659 | 21                                |
| Insurance margin  | 1,310   |                                   |                     | 1,040                             |                        |                                   | 1,087               |        |                                   |
| Margin on revenues                                      | 2,097   |                                   |                     | 1,919                             |                        |                                   | 2,004               |        |                                   |
| Expenses:   |         |                                   |                     |                                   |                        |                                   |                     |        |                                   |
| Acquisition costsnote (i)                               | (1,489) | 3,805                             | (39)%               | (1,285)                           | 3,599                  | (36)%                             | (1,343)             | 3,773  | (36)%                             |
| Administration expenses                                 | (959)   | 35,126                            | (273)               | (832)                             | 28,942                 | (287)                             | (866)               | 30,455 | (284)                             |
| DAC adjustmentsnote (v)                                 | 241     |                                   |                     | 148                               |                        |                                   | 153                 |        |                                   |
| Expected return on shareholder assets                   | 121     |                                   |                     | 99                                |                        |                                   | 104                 |        |                                   |
| Operating profit based on longer-term investment return | 1,799   |                                   |                     | 1,503                             |                        |                                   | 1,571               |        |                                   |

See notes at the end of this section.

Analysis of Asia operating profit drivers:

– Spread income has increased on a constant exchange rate basis by 9 per cent (AER: 15 per cent) to £220 million in 2017, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.

– Fee income has increased by 10 per cent at constant exchange rates (AER: 14 per cent) to £199 million in 2017, broadly in line with the increase in movement in average unit-linked liabilities.

– Insurance margin has increased by 21 per cent to £1,310 million in 2017 on a constant exchange rate basis (AER: 26 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products.

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Margin on revenues has increased by £93 million on a constant exchange rate basis from £2,004 million in 2016 to £2,097 million in 2017, primarily reflecting growth of the in-force book and higher regular premium income recognised in the year.

Acquisition costs have increased by 11 per cent at constant exchange rates (AER: 16 per cent) to £1,489 million, compared to the 1 per cent increase in APE sales, resulting in an increase in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 66 per cent (2016: 70 per cent at CER), the decrease being the result of product and country mix.

Administration expenses including renewal commissions have increased by 11 per cent at a constant exchange rate basis (AER: 15 per cent increase) in 2017 as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has decreased from 284 basis points in 2016 to 273 basis points in 2017, the result of changes in country and product mix.

Margin analysis of long-term insurance business – US

|  | US      |                                |                     |          |                                |                     |                        |                                |                     |
|--|---------|--------------------------------|---------------------|----------|--------------------------------|---------------------|------------------------|--------------------------------|---------------------|
|  | 2017    |                                |                     | 2016 AER |                                |                     | 2016 CER<br>note (iii) |                                |                     |
|  | Profit  | Average liability<br>note (iv) | Margin<br>note (ii) | Profit   | Average liability<br>note (iv) | Margin<br>note (ii) | Profit                 | Average liability<br>note (iv) | Margin<br>note (ii) |
|  | £m      | £m                             | bps                 | £m       | £m                             | bps                 | £m                     | £m                             | bps                 |
| Long-term business                                       |         |                                |                     |          |                                |                     |                        |                                |                     |
| Spread income  | 751     | 38,918                         | 193                 | 802      | 37,044                         | 217                 | 837                    | 38,575                         | 217                 |
| Fee income   | 2,343   | 125,440                        | 187                 | 1,942    | 102,027                        | 190                 | 2,040                  | 107,570                        | 190                 |
| Insurance margin   | 906     |                                |                     | 888      |                                |                     | 933                    |                                |                     |
| Expenses   |         |                                |                     |          |                                |                     |                        |                                |                     |
| Acquisition costsnote (i)                                | (876)   | 1,662                          | (53)%               | (877)    | 1,561                          | (56)%               | (921)                  | 1,641                          | (56)%               |
| Administration expenses                                  | (1,174) | 169,725                        | (69)                | (959)    | 146,043                        | (66)                | (1,007)                | 153,445                        | (66)                |
| DAC adjustments  | 260     |                                |                     | 244      |                                |                     | 260                    |                                |                     |
| Expected return on shareholder assets                    | 4       |                                |                     | 12       |                                |                     | 13                     |                                |                     |
| Operating profit based on longer-term investment returns | 2,214   |                                |                     | 2,052    |                                |                     | 2,155                  |                                |                     |

See notes at the end of this section.

Analysis of US operating profit drivers:

Spread income has decreased by 10 per cent at constant exchange rates (AER: decreased by 6 per cent) to £751 million during 2017. The reported spread margin decreased to 193 basis points from 217 basis points in 2016, due to lower yields in the investment portfolio. Spread income benefited from swap transactions previously entered into so that asset and liability duration can be more closely matched. Excluding this effect, the spread margin would have been 144 basis points (2016 CER: 152 basis points and AER: 153 basis points).

Fee income has increased by 15 per cent at constant exchange rates (AER: increased by 21 per cent) to £2,343 million during 2017, primarily due to higher average separate account balances due to positive net flows from variable annuity business and market appreciation during the year.

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Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin decreased to £906 million in 2017 from £933 million in 2016 on a constant exchange rate basis, with higher income from the variable annuity guarantees being more than offset by a decline in the contribution from the closed books of business.

Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased by 5 per cent at a constant exchange rate basis, largely due to the continued increase in producers selecting asset based commissions, which are paid upon policy anniversary dates and are treated as an administration expense in this analysis, rather than front end commissions.

Administration expenses increased to £1,174 million during 2017, compared to £1,007 million for 2016 at a constant exchange rate (AER: £959 million), primarily as a result of higher asset based commissions. Excluding these asset based commissions, the resulting administration expense ratio was relatively flat at 35 basis points (2016: 34 basis points at CER and AER).

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

|  | 2017 £m                       |                               |                   | 2016 AER £m                   |                               |                   | 2016 CER £m<br>note (iii)     |                               |                   |       |       |
|--|-------------------------------|-------------------------------|-------------------|-------------------------------|-------------------------------|-------------------|-------------------------------|-------------------------------|-------------------|-------|-------|
|  | Other<br>operating<br>profits | Acquisition costs<br>Incurred | Deferred<br>Total | Other<br>operating<br>profits | Acquisition costs<br>Incurred | Deferred<br>Total | Other<br>operating<br>profits | Acquisition costs<br>Incurred | Deferred<br>Total |       |       |
| Total operating profit<br>before acquisition costs and<br>DAC adjustments            | 2,830                         |                               | 2,830             | 2,685                         |                               | 2,685             | 2,816                         |                               |                   |       |       |
| Less new business strain   |                               | (876)                         | 663               |                               | (877)                         | 678               |                               | (199)                         | (921)             | 716   |       |
| Other DAC adjustments -<br>amortisation of previously<br>deferred acquisition costs: |                               |                               |                   |                               |                               |                   |                               |                               |                   |       |       |
| Normal   |                               |                               | (489)             |                               |                               | (489)             |                               | (527)                         |                   | (527) | (554) |
| (Accelerated)/Decelerated  |                               |                               | 86                |                               |                               | 86                |                               | 93                            |                   | 93    | 98    |
| Total  | 2,830                         | (876)                         | 260               | 2,214                         | 2,685                         | (877)             | 244                           | 2,052                         | 2,816             | (921) | 260   |

Analysis of operating profit based on longer-term investment returns for US operations by product

|                                | 2017 £m |       | 2016 £m |     | %<br>2017 vs 2016 |       |
|--------------------------------|---------|-------|---------|-----|-------------------|-------|
|                                | AER     | CER   | AER     | CER | AER               | CER   |
| Spread<br>businessnote<br>(a)  | 317     | 323   | 339     |     | (2)%              | (6)%  |
| Fee<br>businessnote<br>(b)     | 1,788   | 1,523 | 1,601   |     | 17%               | 12%   |
| Life and other<br>businessnote | 109     | 206   | 216     |     | (47)%             | (50)% |

|                                       |       |       |       |      |      |
|---------------------------------------|-------|-------|-------|------|------|
| (c)                                   |       |       |       |      |      |
| Total insurance operations            | 2,214 | 2,052 | 2,156 | 8%   | 3%   |
| US asset management and broker-dealer | 10    | (4)   | (4)   | 350% | 350% |
| Total US operations                   | 2,224 | 2,048 | 2,152 | 9%   | 3%   |

The analysis of operating profit based on longer-term investment returns for US operations by product represents the net profit generated by each line of business after allocation of costs. Broadly:

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.

b) Fee business represents profits from variable annuity products. As well as fee income, revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.

c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

#### Margin analysis of long-term insurance business – UK and Europe

|  | Profit | UK and Europe                             |                     | Profit | UK and Europe                             |                     |
|--|--------|---|---------------------|--------|---|---------------------|
|  |        | 2017<br>Average<br>liability<br>note (iv) | Margin<br>note (ii) |        | 2016<br>Average<br>liability<br>note (iv) | Margin<br>note (ii) |
| Long-term business   | £m     | £m  | bps                 | £m     | £m  | bps                 |
| Spread income  | 137    | 33,631                                    | 41                  | 177    | 32,711                                    | 54                  |
| Fee income   | 61     | 22,632                                    | 27                  | 59     | 21,781                                    | 27                  |
| With-profits   | 288    | 106,359                                   | 27                  | 269    | 95,511                                    | 28                  |
| Insurance margin   | 55     |   |                     | 63     |   |                     |
| Margin on revenues   | 189    |   |                     | 207    |   |                     |
| Expenses:  |        |   |                     |        |   |                     |
| Acquisition costsnote (i)  | (68)   | 1,491                                     | (5)%                | (89)   | 1,160                                     | (8)%                |
| Administration expenses  | (164)  | 56,263                                    | (29)                | (152)  | 54,492                                    | (28)                |
| DAC adjustments  | 4      |   |                     | (2)    |   |                     |
| Expected return on shareholder assets                                  | 104    |   |                     | 110    |   |                     |
|  | 606    |   |                     | 642    |   |                     |
| Longevity reinsurance and other management actions to improve solvency | 276    |   |                     | 332    |   |                     |
| Changes in longevity assumption basis                                  | 204    |   |                     | -      |   |                     |

|  |       |       |
|--|-------|-------|
| Provision for review of past annuity sales               | (225) | (175) |
| Operating profit based on longer-term investment returns | 861   | 799   |

See notes at the end of this section.

Analysis of UK and Europe operating profit drivers:

–  
Spread income reduced from £177 million in 2016 to £137 million in 2017, mainly due to lower annuity sales. Spread income has two components:

A contribution from new annuity business which was lower at £9 million in 2017 compared to £41 million in 2016, reflecting our effective withdrawal from this market.

A contribution from in-force annuity and other business, which was broadly in line with last year at £128 million (2016: £136 million), equivalent to 38 basis points of average reserves (2016: 42 basis points).

–  
Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arises within our UK asset management business. Excluding these schemes, the fee margin on the remaining balances was 39 bps (2016: 40 bps).

–  
Margin on revenues represents premium charges for expenses of shareholder-backed business and other sundry net income.

–  
Acquisition costs decreased from £89 million in 2016 to £68 million in 2017, equivalent to 5 per cent of total APE sales in 2017 (2016: 8 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profits business in the year. Acquisition costs expressed as a percentage of shareholder-backed APE sales remained broadly consistent at 38 per cent (2016: 37 per cent).

–  
The contribution from longevity reinsurance and other management actions to improve solvency during 2017 was £276 million (2016: £332 million). Further explanation and analysis is provided in Additional Unaudited IFRS Financial Information section I(d).

–  
The £204 million favourable longevity assumption changes reflect the adoption of the Continuous Mortality Investigation 2015 model. Further information on changes to mortality assumptions is given in C4.1 (d).

–  
The 2017 increase in the provision for the cost of undertaking a review of past non-advised annuity sales and related potential redress of £225 million (2016: £175 million) is explained in note B4(b).

Notes to sources of earnings tables

(i)  
The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

(ii)  
Margin represents the operating return earned in the year as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus.

(iii)



The 2016 comparative information has been presented at AER and CER so as to eliminate the impact of exchange translation. CER results are calculated by translating prior year results using the current year foreign exchange rates. All CER profit figures have been translated at current year average rates. For Asia CER average liability calculations, the policyholder liabilities have been translated using current year opening and closing exchange rates. For the US CER average liability calculations, the policyholder liabilities have been translated at the current year month end closing exchange rates. See also note A1.

(iv)

For UK and Europe and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the year, as a proxy for average balances throughout the year. The calculation of average liabilities for Jackson is generally derived from month end balances throughout the year, as opposed to opening and closing balances only. The average liabilities for fee income in Jackson have been calculated using daily balances instead of month end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the year.

(v)

The DAC adjustments contain a credit of £43 million in respect of joint ventures and an associate in 2017 (2016: AER credit of £28 million).

I(b)

Asia operations – analysis of IFRS operating profit by business unit

Operating profit based on longer-term investment returns for Asia operations is analysed as follows:

|  | 2017 £m | AER<br>2016 £m | CER<br>2016 £m | 2016 AER<br>vs 2017 | 2016 CER<br>vs 2017 |
|--|---------|----------------|----------------|---------------------|---------------------|
| Hong Kong                                      | 346     | 238            | 250            | 45%                 | 38%                 |
| Indonesia                                      | 457     | 428            | 447            | 7%                  | 2%                  |
| Malaysia                                       | 171     | 147            | 149            | 16%                 | 15%                 |
| Philippines                                    | 41      | 38             | 37             | 8%                  | 11%                 |
| Singapore                                      | 272     | 235            | 247            | 16%                 | 10%                 |
| Thailand                                       | 107     | 92             | 100            | 16%                 | 7%                  |
| Vietnam  | 135     | 114            | 117            | 18%                 | 15%                 |
| South-east Asia Operations including Hong Kong | 1,529   | 1,292          | 1,347          | 18%                 | 14%                 |
| China  | 91      | 64             | 66             | 42%                 | 38%                 |
| Taiwan   | 43      | 35             | 39             | 23%                 | 10%                 |
| Other  | 64      | 49             | 53             | 31%                 | 21%                 |
| Non-recurrent itemsnote (ii)                   | 75      | 67             | 70             | 12%                 | 7%                  |
| Total insurance operationsnote (i)             | 1,802   | 1,507          | 1,575          | 20%                 | 14%                 |
| Development expenses                           | (3)     | (4)            | (4)            | 25%                 | 25%                 |
| Total long-term business operating profit      | 1,799   | 1,503          | 1,571          | 20%                 | 15%                 |
| Asset management (Eastspring Investments)      | 176     | 141            | 149            | 25%                 | 18%                 |
| Total Asia operationsnote (iii)                | 1,975   | 1,644          | 1,720          | 20%                 | 15%                 |

Notes

(i)

Analysis of operating profit between new and in-force business

The result for insurance operations comprises amounts in respect of new business and business in force as follows:

2017 £m    2016 £m

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|                              |       | AER   | CER   |
|------------------------------|-------|-------|-------|
| New business*                | 16    | (29)  | (30)  |
| Business in force            | 1,711 | 1,469 | 1,535 |
| Non-recurrent itemsnote (ii) | 75    | 67    | 70    |
| Total                        | 1,802 | 1,507 | 1,575 |

\*

The IFRS new business result corresponds to approximately 0.4 per cent of new business APE premiums for 2017 (2016: approximately (0.8) per cent of new business APE).

The new business result reflects the aggregate of the pre-tax regulatory basis result to net worth after IFRS adjustments for deferral of acquisition costs and deferred income where appropriate.

(ii)

In 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £75 million (2016: £67 million) representing a small number of individually minor items.

I(c)

Analysis of asset management operating profit based on longer-term investment returns

|  | 2017 £m   |  |
|--|---|--|
|  | M&G Prudential<br>asset management<br>note (ii) | Eastspring<br>Investments<br>note (ii) |
| Operating income before performance-related fees         | 1,034   | 421                                    |
| Performance-related fees                                 | 53  | 17                                     |
| Operating income (net of commission)note (i)             | 1,087   | 438                                    |
| Operating expensenote (i)                                | (602)   | (238)                                  |
| Share of associate's results                             | 15  | -                                      |
| Group's share of tax on joint ventures' operating profit | -   | (24)                                   |
| Operating profit based on longer-term investment returns | 500   | 176                                    |
| Average funds under management                           | £275.9bn  | £128.4bn                               |
| Margin based on operating income*                        | 37bps   | 33bps                                  |
| Cost/income ratio**                                      | 58%   | 56%                                    |

|  | 2016 £m   |  |
|--|---|--|
|  | M&G Prudential<br>asset management<br>note (ii) | Eastspring<br>Investments<br>note (ii) |
| Operating income before performance-related fees         | 923   | 353                                    |
| Performance-related fees                                 | 33  | 7                                      |
| Operating income (net of commission)note (i)             | 956   | 360                                    |
| Operating expensenote (i)                                | (544)   | (198)                                  |
| Share of associate's results                             | 13  | -                                      |
| Group's share of tax on joint ventures' operating profit | -   | (21)                                   |
| Operating profit based on longer-term investment returns | 425   | 141                                    |

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|                                   |          |          |
|-----------------------------------|----------|----------|
| Average funds under management    | £250.4bn | £109.0bn |
| Margin based on operating income* | 37bps    | 32bps    |
| Cost/income ratio**               | 59%      | 56%      |

Notes

(i)  
Operating income and expense includes the Group's share of contribution from joint ventures (but excludes any contribution from associates). In the income statement as shown in the IFRS financial statements, these amounts are netted and tax deducted and shown as a single amount.

(ii)  
M&G Prudential asset management and Eastspring Investments can be further analysed as follows:

| M&G Prudential asset management                  |        |                |                |                |               | Eastspring Investments                           |        |                |                |                |               |     |    |
|--|--------|----------------|----------------|----------------|---------------|--|--------|----------------|----------------|----------------|---------------|-----|----|
| Operating income before performance related fees |        |                |                |                |               | Operating income before performance related fees |        |                |                |                |               |     |    |
|  | Retail | Margin of FUM* | Institutional+ | Margin of FUM* | Total of FUM* |  | Retail | Margin of FUM* | Institutional+ | Margin of FUM* | Total of FUM* |     |    |
|  | £m     | bps            | £m             | bps            | £m            | bps  | £m     | bps            | £m             | bps            | £m            | bps |    |
| 2017   | 604    | 85             | 430            | 21             | 1,034         | 37   | 2017   | 249            | 57             | 172            | 20            | 421 | 33 |
| 2016   | 504    | 86             | 419            | 22             | 923           | 37   | 2016   | 211            | 58             | 142            | 20            | 353 | 32 |

\*

Margin represents operating income before performance-related fees as a proportion of the related funds under management (FUM). Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations that are managed by third parties outside the Prudential Group are excluded from these amounts.

\*\*

Cost/income ratio represents cost as a percentage of operating income before performance-related fees.

†

Institutional includes internal funds.

I(d)

Contribution to UK life financial metrics from specific management actions undertaken to position the balance sheet more efficiently under the Solvency II regime

In 2017, further management actions were taken to improve the solvency of UK and Europe insurance operations and to mitigate market risks. These actions included extending the reinsurance of longevity risk to cover a further £0.5 billion of IFRS annuity liabilities. As at 31 December 2017, the total IFRS annuity liabilities subject to longevity reinsurance were £14.4 billion. Management actions also repositioned the fixed income asset portfolio to improve the trade-off between yield and credit risk.

The effect of these actions on the UK's long-term IFRS operating profit, underlying free surplus generation and EEV operating profit before restructuring costs is shown in the tables below.

IFRS operating profit of UK long-term business\*

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Shareholder-backed annuity new business | 9       | 41      |
| In-force business:                      |         |         |

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|  |       |       |
|--|-------|-------|
| Longevity reinsurance transactions             | 31    | 197   |
| Other management actions to improve solvency   | 245   | 135   |
| Changes in longevity assumption basis          | 204   | -     |
| Provision for the review of past annuity sales | (225) | (175) |
|  | 255   | 157   |
| With-profits and other in-force                | 597   | 601   |
| Total  | 861   | 799   |

Underlying free surplus generation of UK long-term business\*

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Expected in-force and return on net worth                 | 706     | 693     |
| Longevity reinsurance transactions                        | 15      | 126     |
| Other management actions to improve solvency              | 385     | 225     |
| Changes in longevity assumption basis                     | 179     | -       |
| Provision for the review of past annuity sales            | (187)   | (145)   |
|   | 392     | 206     |
| Changes in operating assumptions and experience variances | (28)    | 24      |
| Underlying free surplus generated from in-force business  | 1,070   | 923     |
| New business strain                                       | (175)   | (129)   |
| Total   | 895     | 794     |

EEV post-tax operating profit of UK long-term business\*

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Unwind of discount and other expected return              | 465     | 445     |
| Longevity reinsurance transactions                        | (6)     | (90)    |
| Other management actions to improve solvency              | 127     | 110     |
| Changes in longevity assumption basis                     | 195     | -       |
| Provision for the review of past annuity sales            | (187)   | (145)   |
|   | 129     | (125)   |
| Changes in operating assumptions and experience variances | 79      | 55      |
| Operating profit from in-force business                   | 673     | 375     |
| New business profit                                       | 342     | 268     |
| Total   | 1,015   | 643     |

\*

Before restructuring costs.

II

Other information

II(a)

Holding company cash flow\*

|   | 2017 £m | 2016 £m |
|---|---------|---------|
| Net cash remitted by business units:    |         |         |
| Total Asia net remittances to the Group | 645     | 516     |

|  |         |         |
|--|---------|---------|
| US remittances to the Group  | 475     | 420     |
| UK and Europe net remittances to the Group                             |         |         |
| With-profits remittance  | 215     | 215     |
| Shareholder-backed insurance business remittance                       | 105     | 85      |
| Asset management remittance  | 323     | 290     |
|  | 643     | 590     |
| Other UK paid to the Group (including Prudential Capital) <sup>4</sup> | 25      | 192     |
| Total UK net remittances to the Group                                  | 668     | 782     |
| Net remittances to the Group from business units <sup>1</sup>          | 1,788   | 1,718   |
| Net interest paid  | (415)   | (333)   |
| Tax received   | 152     | 132     |
| Corporate activities   | (207)   | (215)   |
| Total central outflows   | (470)   | (416)   |
| Operating holding company cash flow before dividend                    | 1,318   | 1,302   |
| Dividend paid  | (1,159) | (1,267) |
| Operating holding company cash flow after dividend*                    | 159     | 35      |
| Non-operating net cash flow <sup>2</sup>                               | (511)   | 335     |
| Total holding company cash flow  | (352)   | 370     |
| Cash and short-term investments at beginning of year                   | 2,626   | 2,173   |
| Foreign exchange movements   | (10)    | 83      |
| Cash and short-term investments at end of year <sup>3</sup>            | 2,264   | 2,626   |

\*

The holding company cash flow differs from the IFRS cash flow statement, which includes all cash flows in the period including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.

1

Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.

2

Non-operating net cash flow principally relates to the repayment of subordinated debt net of the proceeds from that issued in the year, and payments for distribution rights and acquisition of subsidiaries.

3

Including central finance subsidiaries.

4

2016 remittance principally represents the outcome of actions completed in that year that facilitated access to central resources previously held at intermediary holding and other companies.

## II(b)

### Funds under management

(a)

#### Summary

For our asset management businesses, funds managed on behalf of third parties are not recorded on the balance sheet. They are, however, a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing on those which are external to the Group and those primarily held by the insurance businesses. The table below analyses, by segment, the funds of the Group held in the statement of financial position and the external funds that are managed by Prudential's asset management operations.

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|   | 2017 £bn | 2016 £bn |
|---|----------|----------|
| Business area:                                    |          |          |
| Asia operations:                                  |          |          |
| Internal funds                                    | 81.4     | 69.6     |
| Eastspring Investments' external funds            | 55.9     | 45.7     |
|   | 137.3    | 115.3    |
| US operations - internal funds                    | 178.3    | 173.3    |
| M&G Prudential:                                   |          |          |
| Internal funds, including PruFund-backed products | 186.8    | 174.0    |
| External funds                                    | 163.9    | 136.8    |
|   | 350.7    | 310.8    |
| Other operations                                  | 3.0      | 2.9      |
| Total funds under managementnote                  | 669.3    | 602.3    |

Note

Total funds under management comprise:

|  | 2017 £bn | 2016 £bn |
|--|----------|----------|
| Total investments per the consolidated statement of financial position                 | 451.4    | 421.7    |
| External funds of M&G Prudential and Eastspring Investments (as analysed in note (b)1) | 219.8    | 182.5    |
| Internally managed funds held in joint ventures and other adjustments                  | (1.9)    | (1.9)    |
| Prudential Group funds under management  | 669.3    | 602.3    |

(b)

Investment products – external funds under management

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|                                 | 2017 £m       |                      |             |                            |                | 2016 £m       |                      |             |                            |                |
|---------------------------------|---------------|----------------------|-------------|----------------------------|----------------|---------------|----------------------|-------------|----------------------------|----------------|
|                                 | At 1 Jan 2017 | Market gross inflows | Redemptions | Market and other movements | At 31 Dec 2017 | At 1 Jan 2016 | Market gross inflows | Redemptions | Market and other movements | At 31 Dec 2016 |
| M&G Prudential Wholesale/Direct | 64,209        | 30,949               | (19,906)    | 4,445                      | 79,697         | 60,801        | 15,785               | (22,038)    | 9,661                      | 64,209         |
| M&G Prudential Institutional    | 72,554        | 15,220               | (8,926)     | 5,310                      | 84,158         | 65,604        | 7,056                | (8,893)     | 8,787                      | 72,554         |
| Total M&G Prudential            | 136,763       | 46,169               | (28,832)    | 9,755                      | 163,855        | 126,405       | 22,841               | (30,931)    | 18,448                     | 136,763        |
| Eastspring Investments          | 45,756        | 215,907              | (211,271)   | 5,493                      | 55,885         | 36,287        | 164,004              | (161,766)   | 7,231                      | 45,756         |
| Total <sup>2</sup>              | 182,519       | 262,076              | (240,103)   | 15,248                     | 219,740        | 162,692       | 186,845              | (192,697)   | 25,679                     | 182,519        |

Notes

1

The results exclude contribution from PruFund products (net inflows of £9.0 billion in 2017; funds under management of £35.9 billion as at 31 December 2017, £24.7 billion as at 31 December 2016).

2

The £219.7 billion (2016: £182.5 billion) investment products comprise £210.4 billion (2016: £174.8 billion) plus Asia Money Market Funds of £9.3 billion (2016: £7.7 billion).

(c)

M&G and Eastspring Investments – total funds under management

M&G, the asset management business of M&G Prudential and Eastspring Investments, the Group's asset management business in Asia, manage funds from external parties and also funds for the Group's insurance operations. The table below analyses the total funds under management managed by M&G and Eastspring Investments respectively.

|                                 | M&G      |          | Eastspring Investments |          |
|---------------------------------|----------|----------|------------------------|----------|
|                                 | 2017 £bn | 2016 £bn | 2017 £bn               | 2016 £bn |
| External funds under management | 163.9    | 136.8    | 55.9                   | 45.7     |
| Internal funds under management | 134.6    | 128.1    | 83.0                   | 72.2     |
| Total funds under management    | 298.5    | 264.9    | 138.9                  | 117.9    |

Note

The external funds under management for Eastspring Investments include Asia Money Market Funds at 31 December 2017 of £9.3 billion (2016: £7.7 billion).

II(c) Return on IFRS shareholders' funds

Return on IFRS shareholders' funds is calculated as operating profit based on longer-term investment returns net of tax and non-controlling interests divided by opening shareholders' funds. Operating profit based on longer-term investment returns is reconciled to IFRS profit before tax in note B1 to the IFRS financial statements.

|  | Note | 2017 £m | 2016 £m |
|--|------|---------|---------|
| Operating profit based on longer-term investment returns, net of tax and non-controlling interests | B5   | 3,727   | 3,362   |
| Opening shareholders' funds  |      | 14,666  | 12,955  |

Return on shareholders' funds 25% 26%

II(d)  
IFRS Gearing ratio

Gearing ratio is calculated as net core structural borrowings of shareholder-financed operations divided by closing IFRS shareholders' funds plus net core structural borrowings.

|   | Note  | 2017 £m | 2016 £m |
|---|-------|---------|---------|
| Core structural borrowings of shareholder-financed operations     | C6.1  | 6,280   | 6,798   |
| Less holding company cash and short-term investments              | II(a) | (2,264) | (2,626) |
| Net core structural borrowings of shareholder-financed operations |       | 4,016   | 4,172   |
| Closing shareholders' funds                                       |       | 16,087  | 14,666  |
| Shareholders' funds plus net core structural borrowings           |       | 20,103  | 18,838  |
| Gearing ratio   |       | 20%     | 22%     |

II(e)  
IFRS shareholders' funds per share

IFRS shareholders' funds per share is calculated as closing IFRS shareholders' funds divided by the number of issued shares at the balance sheet date.

|  | 2017   | 2016   |
|--|--------|--------|
| Closing shareholders' funds (£ million)        | 16,087 | 14,666 |
| Number of issued shares at year end (millions) | 2,587  | 2,581  |
| Shareholders' funds per share (pence)          | 622    | 568    |

II(f)  
Solvency II capital position at 31 December 2017

The estimated Group shareholder Solvency II surplus at 31 December 2017 was £13.3 billion, before allowing for payment of the 2017 second interim ordinary dividend and reflects approved regulatory transitional measures as at 31 December 2017.

|   | 31 Dec<br>2017 £bn | 31 Dec<br>2016 £bn |
|---|--------------------|--------------------|
| Estimated Group shareholder Solvency II capital position* |                    |                    |
| Own funds   | 26.4               | 24.8               |
| Solvency capital requirement                              | 13.1               | 12.3               |
| Surplus   | 13.3               | 12.5               |
| Solvency ratio  | 202%               | 201%               |

\*

The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring fenced With-Profit Funds and staff pension schemes in surplus. The solvency positions include management's estimates of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

In accordance with Solvency II requirements, these results allow for:



–  
Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:

–  
Own funds: represents Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level);

–  
Solvency Capital Requirement: represents 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level); and

–  
No diversification benefits are taken into account between Jackson and the rest of the Group.

–  
Matching adjustment for UK annuities and volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority; and

–  
UK transitional measures, which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority and this recalculation will therefore be reflected in the formal regulatory Quantitative Reporting Templates as at 31 December 2017.

The Group shareholder Solvency II capital position excludes:

–  
A portion of Solvency II surplus capital (£1.7 billion at 31 December 2017) relating to the Group's Asian life operations, including due to the Solvency II definition of 'contract boundaries' which prevents some expected future cashflows from being recognised;

–  
The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £4.8 billion of surplus capital from UK with-profits funds at 31 December 2017) and from the shareholders' share of the estate of with-profits funds; and

–  
The contribution to Own Funds and the Solvency Capital Requirement from pension funds in surplus.

It also excludes unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates. At Jackson's request, the Department of Insurance Financial Services renewed its approval to carry these instruments at book value in the local statutory returns for the period 31 December 2017 to 1 October 2018. At 31 December 2017, this approval had the effect of decreasing local statutory capital and surplus (and by extension Solvency II Own Funds and Solvency II surplus) by £0.4 billion, net of tax. This arrangement reflects an elective longstanding practice first put in place in 2009, which can be unwound at Jackson's discretion.

The 31 December 2017 Solvency II results above allow for the completion of the sale of the Korea life business and sale of the US broker-dealer network in 2017, which contributes £0.1 billion to the Group Solvency II surplus. The results also allow for the impact of US tax reforms enacted in December 2017, which reduce the Group Solvency II surplus by £0.6 billion.

Further information on the Solvency II capital position for the Group and The Prudential Assurance Company Limited is published annually in the Solvency and Financial Condition Reports. These were last published on the Group's website on 18 May 2017.

#### Analysis of movement in Group capital position

A summary of the estimated movement in Group Solvency II surplus from £12.5 billion at year end 2016 to £13.3 billion at year end 2017 is set out in the table below. The movement from the Group Solvency II surplus at 31 December 2015 to the Solvency II surplus at 31 December 2016 is included for comparison.

| Analysis of movement in Group shareholder surplus     | Full year 2017 £bn | Full year 2016 £bn |
|---|--------------------|--------------------|
|   | Surplus            | Surplus            |
| Estimated Solvency II surplus at beginning of period  | 12.5               | 9.7                |
| Underlying operating experience                       | 3.2                | 2.3                |
| Management actions                                    | 0.4                | 0.4                |
| Operating experience                                  | 3.6                | 2.7                |
| Non-operating experience (including market movements) | (0.6)              | (1.1)              |
| Other capital movements                               |                    |                    |
| Subordinated debt issuance / redemption               | (0.2)              | 1.2                |
| Foreign currency translation impacts                  | (0.7)              | 1.6                |
| Dividends paid  | (1.2)              | (1.3)              |
| Model changes   | (0.1)              | (0.3)              |
| Estimated Solvency II surplus at end of period        | 13.3               | 12.5               |

The estimated movement in Group Solvency II surplus over 2017 is driven by:

–

Operating experience of £3.6 billion: generated by in-force business and new business written in 2017, after allowing for amortisation of the UK transitional and the impact of one-off management optimisations implemented over the period;

–

Non-operating experience of £(0.6) billion: resulting mainly from the impact of US tax reform and market movements during 2017, after allowing for the recalculation of the UK transitional at the valuation date;

–

Other capital movements: comprising a loss from foreign currency translation, the net impact of debt raised offset by debt redeemed during 2017 and a reduction in surplus from payment of dividends; and

–

Model changes: reflecting minor calibration changes made to the internal model during 2017.

#### Analysis of Group Solvency Capital Requirements

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The split of the Group's estimated Solvency Capital Requirement by risk type including the capital requirements in respect of Jackson's risk exposures based on 150 per cent of US Risk Based Capital requirements (Company Action Level) but with no diversification between Jackson and the rest of the Group, is as follows:

| Split of the Group's estimated Solvency Capital Requirements | 31 Dec 2017        |                  | 31 Dec 2016        |                  |
|--|--------------------|------------------|--------------------|------------------|
|  | % of undiversified | % of diversified | % of undiversified | % of diversified |
| Market   | 57%                | 71%              | 55%                | 68%              |
| Equity   | 14%                | 23%              | 12%                | 19%              |
| Credit   | 24%                | 38%              | 25%                | 41%              |
| Yields (interest rates)                                      | 13%                | 7%               | 13%                | 7%               |
| Other  | 6%                 | 3%               | 5%                 | 1%               |
| Insurance  | 26%                | 21%              | 28%                | 23%              |
| Mortality/morbidity  | 5%                 | 2%               | 5%                 | 2%               |
| Lapse  | 14%                | 17%              | 16%                | 19%              |
| Longevity  | 7%                 | 2%               | 7%                 | 2%               |
| Operational/expense  | 11%                | 7%               | 11%                | 7%               |
| FX translation   | 6%                 | 1%               | 6%                 | 2%               |

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

| Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds                      | 31 Dec 2017 £bn | 31 Dec 2016 £bn |
|---|-----------------|-----------------|
| IFRS shareholders' equity   | 16.1            | 14.7            |
| Restate US insurance entities from IFRS onto local US statutory basis                         | (3.0)           | (2.2)           |
| Remove DAC, goodwill and intangibles  | (4.0)           | (3.8)           |
| Add subordinated debt   | 5.8             | 6.3             |
| Impact of risk margin (net of transitionals)  | (3.9)           | (3.4)           |
| Add value of shareholder transfers  | 5.3             | 4.0             |
| Liability valuation differences   | 12.1            | 10.5            |
| Increase in net deferred tax liabilities resulting from liability valuation differences above | (1.6)           | (1.3)           |
| Other   | (0.4)           | 0.0             |
| Estimated Solvency II Shareholder Own Funds   | 26.4            | 24.8            |

The key items of the reconciliation as at 31 December 2017 are:

– £3.0 billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a derecognition of Own Funds of £0.8 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;

– £4.0 billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;

– £5.8 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;

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£3.9 billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of £2.3 billion from transitional measures (after allowing for recalculation of the transitional measures as at 31 December 2017) which are not applicable under IFRS;

–

£5.3 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholders' share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group's IFRS shareholders' funds;

–

£12.1 billion due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II Own Funds partially capturing the value of in-force business which is excluded from IFRS;

–

£1.6 billion due to the impact on the valuation of net deferred tax liabilities resulting from the liability valuation differences noted above; and

–

£0.4 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

### Sensitivity analysis

The estimated sensitivity of the Group shareholder Solvency II capital position to significant changes in market conditions is as follows:

| Impact of market sensitivities                             | 31 Dec 2017 |       | 31 Dec 2016 |       |
|--|-------------|-------|-------------|-------|
|  | Surplus £bn | Ratio | Surplus £bn | Ratio |
| Base position  | 13.3        | 202%  | 12.5        | 201%  |
| Impact of:   |             |       |             |       |
| 20% instantaneous fall in equity markets                   | 0.7         | 9%    | 0.0         | 3%    |
| 40% fall in equity markets <sup>1</sup>                    | (2.1)       | (11)% | (1.5)       | (7)%  |
| 50 basis points reduction in interest rates <sup>2,3</sup> | (1.0)       | (14)% | (0.6)       | (9)%  |
| 100 basis points increase in interest rates <sup>3</sup>   | 1.2         | 21%   | 1.0         | 13%   |
| 100 basis points increase in credit spreads <sup>4</sup>   | (1.4)       | (6)%  | (1.1)       | (3)%  |

1 Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.

2 Subject to a floor of zero.

3 Allowing for further transitional recalculation after the interest rate stress.

4 US Risk Based Capital solvency position included using a stress of 10 times expected credit defaults.

The Group believes it is positioned to withstand significant deteriorations in market conditions and we continue to use market hedges to manage some of this exposure across the Group, where we believe the benefit of the protection outweighs the cost. The sensitivity analysis above allows for predetermined management actions and those taken to date, but does not reflect all possible management actions which could be taken in the future.

### UK Solvency II capital position<sup>1, 2</sup>

On the same basis as above, the estimated shareholder Solvency II surplus for The Prudential Assurance Company Limited ('PAC') and its subsidiaries<sup>2</sup> at 31 December 2017 was £6.1 billion, after allowing for recalculation of transitional measures as at 31 December 2017. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

Estimated UK shareholder Solvency II capital position\*    31 Dec 2017 £bn    31 Dec 2016 £bn

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|                              |      |      |
|------------------------------|------|------|
| Own funds                    | 14.0 | 12.0 |
| Solvency capital requirement | 7.9  | 7.4  |
| Surplus                      | 6.1  | 4.6  |
| Solvency ratio               | 178% | 163% |

\*

The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced With-Profit Funds and staff pension schemes in surplus. The solvency positions include management's estimate of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

While there is a large surplus in the UK with-profits funds, this is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 31 December 2017 was £4.8 billion, after allowing for recalculation of transitional measures as at 31 December 2017.

| Estimated UK with-profits Solvency II capital position* | 31 Dec<br>2017 £bn | 31 Dec<br>2016 £bn |
|---|--------------------|--------------------|
| Own funds   | 9.6                | 8.4                |
| Solvency capital requirement                            | 4.8                | 4.7                |
| Surplus   | 4.8                | 3.7                |
| Solvency ratio  | 201%               | 179%               |

\*

The solvency positions include management's estimate of UK transitional measures reflecting operating and market conditions at each valuation date. An application to recalculate the transitional measures as at 31 December 2017 has been approved by the Prudential Regulation Authority.

#### Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds<sup>1</sup>

A reconciliation between the IFRS unallocated surplus and Solvency II Own Funds for UK with-profits business is as follows:

| Reconciliation of UK with-profits funds           | 31 Dec<br>2017 £bn | 31 Dec<br>2016 £bn |
|---|--------------------|--------------------|
| IFRS unallocated surplus of UK with-profits funds | 13.5               | 11.7               |
| Adjustments from IFRS basis to Solvency II        |                    |                    |
| Value of shareholder transfers                    | (2.7)              | (2.3)              |
| Risk margin (net of transitional)                 | (0.7)              | (0.7)              |
| Other valuation differences                       | (0.5)              | (0.3)              |
| Estimated Solvency II Own Funds                   | 9.6                | 8.4                |

#### Annual regulatory reporting

The group will publish its Solvency and Financial Condition Report and related quantitative templates no later than 17 June 2018. The templates will require us to combine the Group shareholder solvency position with those of all other ring-fenced funds across the Group. In combining these solvency positions, the contribution to own funds from these ring-fenced funds will be set equal to their aggregate solvency capital requirements, estimated at £6.6 billion (ie the

solvency surplus in these ring-fenced funds will not be captured in the templates). There will be no impact on the reported Group Solvency II surplus.

Statement of independent review in respect of Solvency II Capital Position at 31 December 2017

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

Notes

1

The UK with-profits capital position includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund.

2

The insurance subsidiaries of PAC are Prudential General Insurance Hong Kong Limited, Prudential Hong Kong Limited, Prudential International Assurance plc and Prudential Pensions Limited.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 14 March 2018

PRUDENTIAL PUBLIC LIMITED COMPANY

By: /s/ Mark FitzPatrick

Mark FitzPatrick  
Chief Financial Officer